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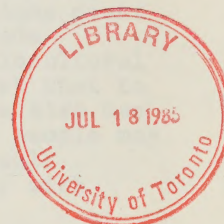
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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ORGANIZATION

THURSDAY, JULY 11, 1985





SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)  
VICE-CHAIRMAN: McGuigan, J. F. (Kent-Elgin L)  
Bennett, C. F. (Ottawa South PC)  
Cordiano, J. (Downsview L)  
Ferraro, R. E. (Wellington South L)  
Knight, D. S. (Halton-Burlington L)  
Mackenzie, R. W. (Hamilton East NDP)  
McFadden, D. J. (Eglinton PC)  
Morin-Strom, K. (Sault Ste. Marie NDP)  
Stephenson, B. M. (York Mills PC)  
Taylor, J. A. (Prince Edward-Lennox PC)

Clerk: Arnott, D.





LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, July 11, 1985

The committee met at 8:05 p.m. in room 228.

ORGANIZATION

Mr. Chairman: Maybe I can just pontificate for a couple of minutes before we actually get into the agenda. I hope we are not going to be here a terribly long time tonight.

I know some of you are as concerned as I have been about the verbiage in the terms of reference of our committee, but until we are actually on the verge of preparing our interim and final reports, I think we do not need to pay a lot of attention to all the things that have to be included in the considerations.

We should be looking basically at the (a), (b) and (c) of the terms of reference. You will see they are really rather broad and they give us a real opportunity to look very carefully at what the thrust of the current debate on bilateral trade options means to Ontario. Clause (a) refers generally to bilateral trade options. It refers to both economic development and sociocultural political events of Ontario and Canada. I would interpret that to mean that while we are called the economic committee, we also can look at concerns and fears and perhaps positive aspects people may find in the presumptions that trade agreements might result eventually in closer sociocultural or political activity with another country.

In clause (b) we are looking at the country that is being considered in particular--perhaps by the federal level of government--the United States, for a bilateral trade agreement, and the factors that are integral to the evaluation of advantages and disadvantages of negotiating that, in particular those concerned with our province.

Finally, there are the appropriate goals and objectives we should be looking at as a province if this is going to happen.

I apologize for the amount of verbiage in there, but if you take a look at those three clauses you are really looking at the nuts and bolts of what the committee is going to be doing.

I am going to be a little cruel tonight, this being a hot July night, by suggesting we get to work quickly. We have a fair amount of work ahead of us because the debate is continuing and it is moving on quickly. It is important that we in Ontario have a lot of input or we may be bypassed by the rest of the country.

I do not know when the Macdonald commission report is going to come down, but I have heard that it may come down fairly soon. That will have an effect on the debate. As you know, the debate is continuing apace at the federal level, so I think it is extremely

important that we study very closely the input this province should have. I suppose we can look at that a little more closely when we get to item 6 on the agenda we have prepared, the schedule of committee business.

I think I have used up about five minutes. There is Mr. Cordiano; so there is just one other person on the committee who is not here yet and that is Jim McGuigan. I do not know why he is not here. The first order of business on the agenda is the election of a vice-chairman, which is a little embarrassing as far as he is concerned.

Mr. Knight: I am not sure whether it is protocol to move the election of a vice-chairman when he is not present, but I hope it is.

Mr. Chairman: Mr. Knight moves the member for Kent-Elgin (Mr. McGuigan) be appointed vice-chairman of the committee.

Motion agreed to.

Mr. Chairman: Next is authorization of a Hansard transcript. Our clerk of the committee, Doug Arnott, has prepared a draft motion extremely efficiently in that regard. Are we supposed to pass it around or just read it?

Mr. Knight: Here I was thinking I was back on municipal council signing a motion that had already been passed.

Mr. Chairman: Mr. Knight moves that unless otherwise ordered, a transcript of all committee hearings be made.

Motion agreed to.

Mr. Chairman: The next two items are committee staffing and a subcommittee on agenda and procedure. I suggest we discuss them together because committee staffing will require some consideration, and yet some decisions should be made quickly.

The problem is a knotty one and it is going to require a great deal of expertise to assist us. Frankly, since I have been aware that I was going to be chairman I have been ruminating about that problem. In my own mind, I have a few names of people who would be of considerable assistance to the committee.

However, rather than proffer them without a great deal of thought occurring, it occurred to me it might be wise if we had a subcommittee, which may have to meet from time to time in any event, composed perhaps of myself and a member of each party to look at agenda and procedure.

Perhaps the first item it should consider would be staffing. The legislative research department has at least one economist who is seemingly well-versed in this area, but it would seem to be its view and that of practically everyone else I have talked to that we are going to need outside help because this is going to need a great deal of work.



I suggest the committee consider setting up a subcommittee to meet soon, perhaps Monday or Tuesday of next week, to take a look at various people who might be available to assist us and perhaps even be given permission by this committee to go ahead and enter into some contractual relationships with them so we could continue to work and perhaps be back in very short order to continue the committee's work.

Mr. Mackenzie: I take it if we did this, you would bring the recommendations back to the committee before you actually entered into the contracts?

Mr. Chairman: I suggested the subcommittee might go ahead, but it is up to the committee.

Mr. Taylor: I would think that normally the subcommittee would report back with its recommendations, and the full committee would make the determination.

While we are on this subject, I was wondering whether you could indicate the particular areas of expertise you think should be employed. Are you talking about an economist? What areas of specialization are you talking about?

Mr. Chairman: Obviously it would need to be an economist and somebody who had a particular skill in organizing matters with regard to calling witnesses and that sort of thing, so I would think simply knowledge of trade matters would not necessarily be the only prerequisite.

Mr. Taylor: It would not have to be an economist, either.

Mr. Chairman: No, I suppose it would not.

Mr. Taylor: There are people around who might be very good at giving the committee some overview or feel for the subject, indicating some of the pressing issues. For example, if we are talking about free trade, are we talking about sectoral free trade? We have experts who have spent years on the General Agreement on Tariffs and Trade negotiations, and people who have assisted the government of Canada over the years in Brussels or wherever the dealings have taken place.

It is sometimes not until you get into a subject that you realize where your deficiencies lie and feel you need some assistance. In the meantime, I do not know whether you need a lot, but you certainly need some mechanical backup. We have the Clerk of the Committee, who can and does usually follow through with respect to witnesses, notification, making arrangements and that type of thing. We have already mentioned the library services, and people there who could obtain information for us on specific subject matter.

I only mention this because I know that once we get into the business community and really employ people without fully knowing what we need, we can incur a great deal of expense, which on a sort of cost-benefit basis may not be economical. If we are a committee on economic affairs, I think there is also some need for

economy in that area.

8:20 p.m.

Miss Stephenson: May I just say I would concur with Mr. Taylor, particularly because I have a rather strong feeling the terms of reference are essentially extremely narrow. For the most part, they include examining the implications of freer or trade enhancement between Canada and the United States, and that is not the only area we are going to have to look at as a jurisdiction. I feel rather deeply that at this point we should not be limiting ourselves simply to freer trade with the United States, but should be looking at the implications of that kind of activity in terms of international trade, multinational, multilateral trade and the kinds of restrictive and inhibiting forces that might imply for our relationships with other trading partners.

I would therefore support James's position that we really should know what it is we are doing before we start hiring additional people to assist us in this area.

I can attest to the fact that Douglas is an extremely efficient clerk and that he does a great job of making sure people get organized. He even tells you what to say at times, but he does it very politely and always in good faith.

Mr. Taylor: I do not want to monopolize the conversation here, but Rick Ferraro is the parliamentary assistant to the Minister of Industry, Trade and Technology (Mr. O'Neil). There is a great deal of expertise within that ministry. This is an area the ministry has explored. There are people in there who could come here on very short notice, next week if you wanted, and give us an overview of some of the issues and maybe in a broad way the ramifications of free trade in this sector--what happens to that sector in our country and what is the transfer from Canada to the United States, for example. They have drawn on outside expertise.

I am suggesting we may be able to get someone in here on very short notice to give us an overview, so we get a feel for the issues and sharpen our focus on what we want to knock off first.

As I understand the resolution and the comments of the Treasurer (Mr. Nixon) when he made the motion, we have three months for an interim report which is not a very long time. We have to get some kind of focus if we are going to get any kind of meaningful report. I just throw that out to you, Mr. Chairman.

Mr. Mackenzie: I can only look at it in my usual simple way. We are going to have to spend a bit of money and have some staff that can advise us. It is not going to be good enough to have somebody who takes a straight single perspective on trade, either free or not so free. Both sides of the argument will have to be presented to us. I am not sure if it is a little narrow if the main emphasis is on the US although I understand that will be the basis of a lot of our discussion.

We must have recommendations brought to us by a subcommittee. I do not think you will get it strictly within our



legislative library research team, although I have one hell of a lot of respect for what they have done for two or three committees I have sat on. You are probably going to have to go outside as well. That raises the question as to whether we are getting a broad enough perspective on the advice we get, whether it is economic in terms of trade and tariff matters, you name it. It also raises the questions of costs. I suspect it is going to be costly if this committee is to do its job, because the subject is pretty important.

I raise this because most of us were a little shocked at the bills we got on the select committee on Ontario Hydro affairs a few years back. To give credit to the people we hired for that committee, I do not think I ever saw the issues presented more effectively or more clearly and the consensus of the discussions better done. But we paid an arm and a leg for the outside legal counsel and advisers we had. You probably cannot get away from that if you are going to get the expertise--and a smaller committee is going to have to decide on it--but I would like to have whatever you are recommending to us come back to the committee before it is finalized.

Mr. McGuigan: I want to make a comment about the scope of our job. I do not discount the importance of looking at our trade with Japan or Europe, but as an Ontario committee, I think we have to keep an eye on free trade in Canada as it affects Ontario. I suppose there is some spinoff in other areas too, but when you look at affecting Pacific trade or Atlantic trade, you are largely looking at a Canadian perspective rather than an Ontario perspective. Again, we do 75 to 80 per cent of our exporting and trade with the United States.

It has not been mentioned, but there is a political context to this. If you join in complete economic union, a great many people, myself being one of them, are afraid the next step would be a full political union. I would think we would want to spend most of our time on our relations with the United States.

Mr. Chairman: Looking at paragraph 8, we probably can look at other areas and we are going to.

Mr. Knight: Mr. Chairman, Jim mentioned free trade, and that is what has been talked about in the press now for some time. However, I notice there has been some subtle change in the terminology, and I am interested in noting that the terms of reference do not mention that. I am not sure whether there was some necessary intent in it being worded that way.

My own feeling is that we should keep the discussions of the committee as much as possible on bilateral trade, because we will find the scope of terms of reference for the committee will broaden somewhat if we do that. To discuss only whether an option for Canada, an option for Ontario or any benefits to Ontario are realized through free trade narrows too much what we have to discuss.

We are talking about bilateral trade. We are simply talking about what exists right now and whether some positive changes can



be made. We should recognize that this committee does not want only to talk about whether we should open up trade between ourselves and the United States, but rather to address the broader possibility that some positive benefits could come from discussion of broadening or lowering of tariffs or whatever.

In that respect, it is probably important that the subcommittee we intend to strike will look at having somebody in place who can guide us. We need a person who has some expertise in international trade--not necessarily an economist but someone whose strengths are in international trade--who can provide some expertise in more than the automotive industry, steel products, forestry or whatever.

I believe it was mentioned that a possibility might be somebody with some knowledge of the General Agreement on Tariffs and Trade and the discussions that have taken place there and probably will take place. Someone who has that kind of knowledge may very well be a person who does not have some of the other strengths we might need but who, because of his or her credentials, could lend some credibility to our committee.

There are going to be many people in this province and in this country, and perhaps even internationally, who will be looking at what is going to come from our committee. It will be important that the committee have some credibility, and it will be a person such as that, whoever that might be, who will give us that credibility.

8:30 p.m.

The committee might also want to take a look at some corporate expertise that we cannot get in house here. I am thinking of the kind of service that can provide the analysis necessary for some of the information that is going to be presented to us by the witnesses. A particular person we might want to help guide our committee may not have that expertise; so we might even want to look at a consulting firm that provides all those kinds of expertise. I am not sure.

Miss Stephenson mentioned that we should broaden our mandate to look at not just bilateral trade with the United States. I could not concur more, because you cannot talk about bilateral trade with the United States unless you look at the broader context and what the effects any changes in trade relationships with the United States might have on our international trade. What happens vis-à-vis our trade relationships with Japan regarding steel or forest products if we take down all the barriers with the United States and conversely put up barriers on some products?

We have to look at perhaps broadening our mandate. It is very important that we make sure the committee--I apologize for taking up so much time, but I want to make it clear I am very concerned about the effect the enhancing or freeing up of trade with the United States might have on the economic nationalism of Canada. I make no apologies for being an economic nationalist as well as a nationalist in all matters of nationalism. I like the fact that the terms of reference allow us to get into that discussion, and I want to address that later.

I hope the committee that is struck will take a very careful look at making sure the person we have is not just a technician but will be able to give some credibility to the committee.

Mr. Chairman: That makes sense.

Mr. Ferraro: Not to detract from what was said, I would like to focus on one point. It is obvious the scope is very broad, and probably will be more so, but the fact that we have to make an interim report in three months is something the subcommittee will have to take into account as well. I am not too clear as to what the content of that interim report will make reference to, the entire mandate or scope of the committee, or a portion thereof. My golf game has suffered immensely, and in three months--it is a pretty tough job.

Mr. Mackenzie: To identify some of the major areas of concern is about the best you can do.

Miss Stephenson: That may be all we are able to get at.

Mr. McFadden: That follows through to a couple of comments I want to make. In the next three months, certainly during the course of the year but maybe for three months, we should look at some of the industries that are in a particularly critical position now. The proposal made last year about sectoral free trade identified four areas. There are other industries in addition to those proposed to be brought into sectoral free trade. That has gone on to the back burner; maybe it is off the stove altogether as we look at the broader picture.

It would be very productive for us to pinpoint the industries that are going to most affected by anything like this. They are the ones most likely to want to come here, the Ontario industries. We know that the oil and gas industry has a huge vested interest in a free trade arrangement and that the western governments are undoubtedly going to be pushing that. We should identify the industries in our province that have a particular interest.

Some have an interest in free trade. For others, free trade would blow them out of the box. An example is the brewing industry. The American brewers would love nothing better than total access to the Ontario market. The only problem is that the surplus capacity of American breweries today is twice as great as the total capacity of all Canadian breweries across Canada. If you open that up, all you will see is Budweiser, and that will be it for Canada. That is the kind of industry we should take a careful look at. Maybe we should focus on a few industries in a more critical position rather than on generalities.

The other issue we ought to monitor is the question of the potential opening of the new round of talks on the General Agreement on Tariffs and Trade. President Reagan proposed at the last economic summit that they go into a new GATT round. The French government opposed him and everything went up in the air. But if that were to be initiated in the next several months, to some extent this might become a little redundant because the

Americans might back off this in favour looking at multilateral relations.

In the last round of GATT negotiations, some Canadian industries and Ontario industries, one of those being the wine industry, found themselves on the outs. That was not so much with the Americans, but it became an European Community-Canadian problem. We have a complaint going on now in the EC against the Ontario wine industry. I gather they are starting even now to go at our distillers and our breweries.

My only reason for raising this is that I think it is very important that we also consider our potential position if Reagan suggests a new GATT round gets going, because this thing could well be overtaken by events on a broader scale. That is one reason I am wondering about it. I know we cannot sit here and amend our terms of reference. Perhaps this is something we can either recommend that we expand into after our first three months, or we can request some enhancement between now and the end of three months.

In terms of who we retain, whether it be someone in the ministry or outside, it seems to me we need three types of people. We are certainly going to want somebody who has experience with Canadian-American relations, trade and perhaps some understanding of Washington. To have somebody with expertise in that area is not adequate. We also need somebody who has particular experience in Europe and the Pacific Rim as well, so we can get some advance notice of changes that are happening there. We need someone who can advise us so we can understand how anything we are doing bilaterally could either prejudice or enhance our arrangements with the rest of the world.

I do not think you are going to find that embodied in one all-seeing person here who is going to come in with all the information. I do not know how expensive this will be or what our budget is going to be, but if we are going to add anything to the public discussion of this province we are going to have to look for the right staff mix, unless the group of us are intending to work full-time from now until next summer.

My feeling right now is that I do not think you are going to find any one person. I think we are going to have to have the right mix and see if that would not work, given the number of issues we are going to be facing.

Mr. Knight: Or if we could find a firm that embodied all of those extra things.

Mr. Ferraro: If I may interject, I am not necessarily sure the terms of reference would preclude what David is suggesting. I am not sure we would necessarily have to seek permission to broaden our scope. For example, part (a) of our terms of reference, I think would give us the power to deal with it as we see fit.

Mr. Chairman: Part (a) is pretty wide, but it may be that part of what he is saying is that we must include consideration of certain terms here.



Mr. Ferraro: Right; but it would not preclude what he was suggesting.

Mr. Chairman: At some stage we have to look at all these subclauses. It may be that he is saying things are happening so fast that in another two or three months a lot of this could be redundant.

Mr. Cordiano: Perhaps we should look at this whole question in two stages; I see it that way anyway. First is the question of enhanced trade with the United States and the impact that will have on Ontario's economy, what stems from that. We can do that in the short term.

Second, in the longer term we should look at any other trading patterns we would like to pursue and see those as options to enhanced trade with the United States. That should be in the longer term after we have done the initial study of enhanced trade with the United States.

10:40 p.m.

Mr. Bennett: Jim Taylor was on the right track, if I may say so. There is a great deal of expertise over in the Ministry of Industry and Trade. There is also a great deal of expertise down in Ottawa. Indeed, if we were to look at some of the Canadians formerly employed at the GATT negotiations who today are either retired or in the consulting business, it might be very well for us to pursue their availability, if not on a continuing basis at least on a contractual basis, for giving us some guidance and direction.

I think of Jack Warren, a former ambassador both to Washington and to London, who sat in Brussels. I am not sure of what Jack Warren is doing now, but I know that for a long time he offered a great deal of advice to the government of Canada. Whether all of it was accepted is another thing. But at least he had a fairly good knowledge. My understanding is that he still does a fair amount of work in that field now that he is retired from his diplomatic post in External Affairs.

I cannot remember the gentleman's name--

Miss Stephenson: He was the GATT negotiator from Brussels.

Mr. Bennett: That is correct. We took him on at the Ministry of Industry, Trade and Technology at the time to give us some advice. I think it was good advice. One of the things we had was that we as members of the provincial Legislature would start with some preconceived ideas about freer trade with the United States. We might very well have been on the wrong road.

Mr. Cordiano: Fine.

Mr. Bennett: But we should also have somebody who is able to come in and say: "Here are the areas you should be trying to put your energies into, because to go beyond this you are

flapping your hands in the water. You are not going to get too far. Here are the likely areas you can make some impact on." Whatever we recommend to the government at this point is obviously only to facilitate it going to Ottawa to discuss matters with the various federal departments involved. It is strictly advice from this parliament to that source.

We have people here within the ministry, or they can give you a list of alternatives, of people who might very well represent one side or the other of the issue.

Mr. Ferraro: Preferably both.

Mr. Bennett: That is correct. But you are not likely to find it all within one person, I agree.

Second, we would be well advised to seek out from Ottawa people they might recommend whom we could consult with. I do not disagree that in the short term we should look at those things we can have the greatest impact with. I agree with Bette.

The other day, when we saw the terms of reference, one of the first things we agreed on was that it is a little difficult to be sitting here as Ontarians and Canadians and bitching about the fact that too much of our trade is with the United States and that we should be expanding our horizons to try to diversify into world markets. But it comes to this particular committee, where we are only going to talk about what we can do to enhance the trade relationship with our friends to the south. We have to be looking at something much broader, because regardless of what we do we will find we have to take into consideration what it is going to do in the GATT negotiations or with the Japanese or the European Community.

Mr. Taylor: You will find a single world market.

Mr. Bennett: Maybe that would not be so fine. It is nice to sit here as Ontarians and say this will be good for us. But what is the spinoff that can very well affect the sister provinces of Canada? Indeed, if you look at what happened on the east coast, I know many times when I was the minister it would have been great to say: "To hell with them. We will take all we can get. That is their problem."

The fact is that they are not such a bad trading partner for Canada from a domestic point of view. If their wealth and economy go down the drain, that has an impact on us. We clearly have to take that into consideration as much as the east and our friends to the west with their wood, as we have already mentioned, and their coal supply to Japan. Where do we get off if we do not take into consideration all those factors?

I want to go back to the point of looking at staff. It is a broad issue. You cannot find a person overnight. I think you, Mr. Chairman, along with the vice-chairman and one or two other members, should be consulting with the ministry both here and in Ottawa. I am sure we will come up with people who have first of all, and I make no apology for saying it, a national interest in what we are trying to achieve.

Mr. Chairman: I suspect our committee is not approaching this problem with a goal of enhancing bilateral trade with the United States but looking at it in a very jaundiced way. It is something many others are telling us is going to happen, but in Ontario we may be a little worried about it.

I agree you can interpret the terms of reference in saying it is inevitable. There is one other thing too. We can also look at interprovincial trade barriers. I do not think there is anything preventing us from doing that. They exist, of course.

Mr. Bennett: That is a very reasonable deduction.

Mr. Morin-Strom: I appreciate the point Mr. Bennett was making. We have to look at both the impact on the Ontario economy as well as the broader scope of the impact on Canada as a whole. If we look at Ontario as an isolated economy, in industries such as the auto industry, Ontario is the net exporter of automobiles to the rest of the country. We benefit tremendously from having virtually all the auto production in Canada within Ontario, and we also benefit from getting our share of the North American market, based on the total Canadian consumption rather than the Ontario consumption.

In other major industries, such as oil, we produce a very small amount, so we are a net importer when we look at Ontario as an isolated economy. For each individual industry and in terms of the whole impact, I think we have to take into account the total Canadian perspective as well as primarily defending Ontario's interests.

One of the serious problems we have is determining what free trade or, for that matter, trade enhancement really means.

My experience at Algoma Steel, more or less as a corporate financial analyst, gives me a good perspective as to what is going on, certainly in the steel industry, in our trading with the United States and what is going on in the steel industry trading with overseas countries. Frankly, there is a big distinction between free trade and fair trade. In the steel industry the North American market--Canada and the US--is basically a market where fair trade prevails. That is quite different from what happens--in that particular industry anyway--when you are trading with other countries where there are practices that can cause total disruption to the market of a country where you are not the primary supplier.

I have seen the kind of disruptions that have happened to the Canadian and the US steel industries caused by dumping of steel from offshore countries here. The opportunity to make incremental profits based on disposing of surplus production can provide a benefit to a home country while causing total disruption to a foreign market. The same thing has happened in reverse. The Canadian steel industry has done the same thing to other markets overseas with respect to dumping our products.



It happens and can happen and be a net benefit to the company as long as they are making an incremental profit, but the prices the steel is sold for cause a disruption of the marketplace in another country. This is what can happen if there are no restrictions and no barriers on trade practices even across the Canadian-US market. One company can dump in a market that it is not traditionally supplying and cause complete disruption of the market pricing system in another area. This is something a company would never do in its base market, because once it discounted for one customer in its home market, it would have to discount for all costumers; they all expect it.

I think trade practices have to be looked at both with respect to what restrictions and barriers can be placed and have been placed by governments, but also what kind of disruptions can be caused by trade practices by individual companies within given industries.

8:50 p.m.

I think the scope of this study is all-encompassing in the sense that trade is such a big part of the Canadian economy. This leads us to have to look at all aspects of that economy in order to analyse what effects changes in trade relationships and trade laws would have on us. I think that for the next three months our emphasis has to be on information. Whenever you are studying any subject, until you have good information and as much of it as possible, which can concisely provide an overview and details on particular aspects of the subject you are discussing, you are really talking off the top of your head, as I suppose I am doing now.

Until we have good information, we cannot come to any real conclusions that will mean anything for Ontario or Canada. I think our emphasis should be on getting the expertise and help that will provide as much information as possible, that makes sense of the subject at which we are looking. We have to get a broader review of the current Canadian trade situation. We have to look at all major industries.

Anything that even contributes a few per cent to our gross national product is going to have to be looked at, and we are going to have to do so in terms of the amounts of trade, dollar for dollar, that flows in and out of Canada and how much of it goes to the United States, in and out, and how much is going to other countries. On an industry-by-industry basis, we have to look at the competitiveness of the Canadian versus the American industries and those of the rest of the world, for that matter.

We have to look at what current trade restrictions and barriers both Canada and the United States have, in particular, more so than other countries around the world that affect the amounts of trade currently. We must also examine the current competitive positions and then what changes to those trade restrictions might mean for those industries.

One problem here is we do not have a very good definition of what is being proposed by bilateral trade agreement or trade enhancement with the United States. I think we must have some sense about what types of changes in trade practices are being proposed by the Canadian government. Otherwise, we could go off in all directions. Presumably, almost anything could be looked at. If we do not have some kind of focus as to what are the serious trade options, I think we will have a serious problem in narrowing it to something meaningful and relevant to what is being discussed.

Finally, I think one of the main objectives of our considerations has to be not only ownership of our industries and our economy, but control. Will we be able to ensure that Canadians have control of our industries with respect to making decisions, allocating resources and ensuring our interests are being upheld? In other words, this means the control of industry, but we also have to worry about control of our country.

We have to worry about whether bilateral trade agreement means more than just removing tariff barriers, but could also mean restrictions on the Canadian or Ontario government's ability to set laws to govern ourselves. I think we have to question anything that would lead to our agreeing to establish laws that are consistent with the American ones so that we become pawns of the American legal system.

Mr. Chairman: At the risk of starting a second go-around--

Mr. Knight: I was going to move a motion at this time, but before I do, Mr. Morin-Strom mentioned that we need information and, of course, we do. I think this is going to be a very important responsibility of the subcommittee if we strike it. I am going to move a motion that we do, to recommend the witnesses, the lineup of people we will be calling in front of the committee.

As far as our interim report is concerned, I think that is where our information is going to come. It is the witnesses we bring to the committee who are going to lead us to the interim report we are going to be presenting. I am not sure, but perhaps after that time the kind of information we might require will come from sources other than the witnesses, but I do not think we need to do that for the first three months or so.

I am sure the discussion can keep going, but I think you would probably like to have a motion. Do you have a written one?

Mr. Chairman: The clerk has already prepared one.

Mr. Knight: Talk about efficiency. I am not going to sign this time, but I see there is a space for me to put my name in, so maybe I will.

Mr. Chairman: Mr. Knight moves that a subcommittee on agenda and procedure be struck to consider and report to the select committee on the matter of committee staffing and to advise



the committee on such other matters as the committee may from time refer to it, the subcommittee to be composed of the following members: David Cooke, chairman, Jim McGuigan, vice-chairman, Jim Taylor and Karl Morin-Strom, with substitution permitted on written notice.

Mr. Chairman: We have a motion on the floor. In my opening remarks on this, I talked about the subcommittee making the decision. I was trying to think of a timetable that we will be talking about a little later on and I was thinking of trying to get this done quickly, but I realize the enormity of choosing the right people. We could make huge mistakes that we would feel badly about down the road. In any event, I had hoped that could be done next week so that possibly a week from Monday we could actually start hearing evidence and get to work because I think time is of the essence.

The wording of that motion is in accordance with the suggestion that the final decision be made by the full committee.

Mr. Mackenzie: That is the only point I wanted to make. Who did you have on it?

Mr. Knight: The chairman, the vice-chairman, Jim Taylor and Karl Morin-Strom.

Mr. Mackenzie: I think that subcommittee should not only come back with some recommendations on staffing, but also probably should early in the game--if you are thinking of starting that early--see if there is some expertise that could be involved with respect to briefing or some early overviews of what we are looking at in terms of trade to start the committee off. I think that subcommittee should have a fair amount of authority. It is just that I would like to see the final recommendation--and you may not decide them all at once--in terms of the staffing and expertise you are going to need come to the full committee.

Mr. Ferraro: I wholeheartedly agree with that suggestion. I think it should come back to the committee for approval. Perhaps we can carry on with our own people initially to give us some direction, whether from the Legislative Assembly or the Ministry of Industry, Trade and Technology.

Miss Stephenson: I can suggest people from Treasury with some expertise in the area of international trade such as Bryne Purchase and Peter Sadlier-Brown. It would be useful for the subcommittee, it seems to me, to explore the possibility of bringing together those from I and T and those from T.

Mr. Ferraro: The biggest starting point is our own people.

9 p.m.

Miss Stephenson: They also have a wealth of knowledge about those who are experts in various sectors of it, who have all points of view as well and who are not necessarily committed to the concept of free trade.

Mr. Bennett: I would imagine the Ministry of Agriculture and Food (Mr. Riddell) will discuss some of this. That is going to be one of the area we will have to be very careful about. So you might want to--

Miss Stephenson: That is right.

Mr. Bennett: One of the other things Karl mentioned tonight, which is very important, is that somebody with a great deal of understanding of the whole trade situation should come in and give us their expertise. That is the nontariff barriers, all those hidden things which one has no idea about until somebody implements it. We can be sitting here thinking we are doing a hell of a job and all of a sudden find out there are nontariff barriers which have already scuttled whatever thoughts we are putting together.

Mr. Ferraro: I think we are--your extension, Mr. Chairman, on the time frame.

Mr. Chairman: Yes.

Mr. McGuigan: I realize the role that nontariff barriers played. It seems to me, as a committee trying to get policy pretty well limited to the above-the-table things--

Miss Stephenson: Jim, I think you are being naïve if you are going to suggest that is the only thing we should be looking at. There are a hell of a lot more insidious things.

Mr. McGuigan: The chairman said the only thing--I know, but it is the only thing we can have any influence upon.

Miss Stephenson: Oh, I do not know. I think we can have some fairly major influence on nontariff barriers, particularly preferment policies and that sort of thing, which can be attacked directly.

Mr. McGuigan: I stood on the Ambassador Bridge with a truckload of strawberries melting and I know what nontariff barriers are.

Mr. McFadden: I was just supporting that idea. There have been a couple of instances where I have been involved with negotiations in Washington, one of which was on the provisions of an appropriations act in Congress, and I know that is a pretty tough nontariff barrier to get over.

For example if they exclude, through Congress and one thing and another, a whole range of product lines, technically that is not a tariff barrier. It may or may not fall under any agreement, but it can be pretty devastating to a lot of industries if they cannot supply any American government agencies with anything.

Historically, Canadian industries have been pretty poor even



in supplying what was available, but nevertheless you can go through specialty steels. There is a whole range of products down there that we are excluded from by the operation of various acts and so on. I think the nontariff barrier is very important for some industries.

While I agree with you on that for the purposes of our terms of reference it is easier to deal with the obvious things, it would be incumbent on us to look at some of the nontariff barriers for the key industries.

We can certainly point out to the Americans that while they talk free trade, they often do not look back much further than just their tariffs. For us to develop a meaningful report, surely one of the options we have to be promoting, either in a general agreement on tariffs and trade round or bilateral negotiations, is the whole area of government procurement policy in the United States, let alone other subtle things which happen. They cannot control the private industry, but certainly they can control what their own agencies are doing.

Mr. Chairman: I took that to be the gist of your comment when you talked about other countries forcing us to make certain laws.

Mr. Morin-Strom: If we have different environmental restrictions to the Americans, that becomes an economic advantage or disadvantage one way or the other. Under a free trade situation, our industries are going to come and say, "We have to have the identical environmental law as the Americans."

Mr. Chairman: Or identical labour laws.

Mr. Morin-Strom: Yes, and identical labour laws as well.

Mr. Mackenzie: I thought we should decide, if we have not already done it, on this small subcommittee and give it some authority. I am sure there is expertise they can reach.

Just as a comment, we were down in Washington on one of our committees recently and we had a breakfast meeting with our ambassador in Washington. His name escapes me now. I think he was in the process of being changed or moved.

Miss Stephenson: No. He is Allan Gotlieb.

Mr. Mackenzie: Yes. At a one-hour breakfast meeting he gave us a summary, where he dealt with some of the steel problems, the sugar deal which was just developing and the problems with some of the moves in the US Congress at the time. I thought it was one of the best one-hour sessions I had ever spent with regard to a bit of a view.

I am sure there is expertise all over the place for that committee, but I think we had better settle on the subcommittee and let it get to work on it.

Mr. Chairman: Is there any other discussion on the motion?

Mr. Ferraro: The Treasury department was mentioned. You may want to look at the ministries of Natural Resources and the Environment which were alluded to as well. We could be here all month just with our own people.

Mr. McFadden: Mr. Chairman, I wonder if we should invite in our own government people from all of the various points of view to get their views--

Interjection: That is just a hell of a starting point.

Mr. McFadden: I know it is going to be hard to find witnesses. Even inside the government, there would be a lot of people ready to talk pretty fast, but eventually we need to get this program.

Miss Stephenson: Surely the initial activity is to bring together those experts who are regularly and easily available to us, who can provide us with the information which would give us direction and guidelines regarding the kinds of things that we should be beginning to think about and look at. Then we should look at the external expertise because then we can select the appropriate people from the list we will undoubtedly get from them, too. I think it could begin with that kind of activity, which could be done relatively rapidly.

Mr. McGuigan: In the final selection, we have to give a balance to--

Miss Stephenson: Oh, yes. It is absolutely true that there are those who have perfectly valid opinions which are absolutely opposed to any concept, and I think we have to listen to that; we have to listen to the Mel Hurtigs in this area to see what they have to say about it, because they have real concerns.

Mr. Ferraro: It is an interesting point from a political standpoint, and I may be way out in left field in this one. Should we also provide the opportunity for the general public to make comment?

Miss Stephenson: Oh, yes. That is on the agenda.

Mr. Ferraro: Okay. I do not want to hear just from experts.

Mr. Mackenzie: We are going to have to take a look at that.

Miss Stephenson: You will hear from all kinds of people. Some of them you will not want to listen to.

Mr. Chairman: We have had a fair amount of discussion now on the motion on the floor. I am ready to take the vote on that.



Mr. Taylor: Would you read the motion again?

Mr. Chairman: The clerk has it here.

Clerk of the Committee: Moved by Mr. Knight that a subcommittee on agenda and procedure be struck to consider and report to the select committee on the matter of committee staffing and to advise the committee on such other matters as the committee may from time to time refer to it, the subcommittee to be composed of the following members: Mr. D. R. Cook as Chairman, Mr. McGuigan, Mr. Taylor and Mr. Morin-Strom, with substitution permitted on written notice.

Mr. Taylor: I asked that the motion be read again because I think it is somewhat restrictive with regard to the function of the steering committee. As I said initially, with respect to any contracting out, whether it is staff or otherwise, I think that is a function of the whole committee, but with respect to reporting back about an agenda, that can be done by the steering committee. For example, Mr. Chairman, if you want to sit next week, the steering committee can get together this week and we can line up an agenda next week so that the whole committee will have an overview and briefing, drawing on internal expertise, for example, so we can get started on this thing. If we have got to bring that back next week, then we are going to lose a week.

All I am saying is there should be some potential for flexibility on the part of the steering committee to step ahead and for the first week, certainly, get an agenda and say we have set aside three days next week for an overview and briefing. You will have to rely on our judgement with respect to the witnesses we are bringing in to do that.

Mr. Ferraro: From our staff.

Mr. Taylor: Yes. It troubles me that the resolution probably was not broad enough.

Mr. Chairman: I think this resolution would permit the committee to come back with an agenda.

Mr. Taylor: Yes. We would come back here with a recommendation.

Mr. Chairman: Yes, with a recommendation, but there is nothing to prevent it from bringing resources in the form of a recommendation which could be accepted immediately, and we could go to work.

Mr. Bennett: Mr. Taylor has two points. First, to go ahead and arrange for some of the civil servants, or people who are within our various ministries, to come here to the next meeting.

Mr. Chairman: Yes.

9:10 p.m.

Mr. Bennett: Either before or after that same meeting we could review some of the people you think we might want to put on contract. We have a two-part position on this now.

Mr. Ferraro: We get into the primary direction. Why waste a meeting?

Miss Stephenson: Surely, what was suggested was that this subcommittee could meet, perhaps tomorrow, establish that agenda, establish those who should be invited to that initial meeting and arrange the date for that meeting for next week, and we could be off and running.

Mr. Chairman: I see nothing wrong with that.

Mr. Knight: I amend my motion by the addition of the words "and the subcommittee be empowered to arrange for a briefing next week"--as long as it is not Monday; that is not part of the motion--"with resources they deem appropriate."

Mr. Chairman: The motion has now been amended by the mover.

Mr. Ferraro: I do not want to be technical, but leave "resources from government staff."

Mr. Knight: I said "as they deem appropriate."

Interjection: Are you suggesting that they should only be government staff?

Mr. Ferraro: In the initial one, yes.

Miss Stephenson: I am not sure we should restrict the committee that way. What we have been talking about is utilizing the easily available expertise at Queen's Park now, and beginning that way. That will give us some capacity for briefing that will be appropriate.

Mr. Knight: I do not think we should restrict the broadening of the mandate.

Miss Stephenson: On such short notice, I do not think we can get anybody else. I am also looking to pick their brains about the external experts we might consider seriously as those who might come on contract or those who might provide us with short-term intensive briefings in specific areas. That can be done in relatively short order. I do not think we should tie the subcommittee's hands as far as this is concerned. If they decide they want to do something with a little élan separate from that--

Mr. Mackenzie: There has been effective use of a subcommittee acting as a co-ordinating or steering committee group all the way through the hearings. It would be advisable to start with that view in mind from this point.

Mr. Chairman: That is what I had envisioned, too.



Mr. Mackenzie: You can also start, as Miss Stephenson says, with some of the internal people, but you are going to want a briefing on a broader scale than that.

Miss Stephenson: Nobody is denying that.

Mr. McGuigan: I do not think it is necessary as vice-chairman--

Mr. Chairman: That happened before you arrived.

Mr. McGuigan: I appreciate being vice-chairman of the committee, but I do not think I have to be on the subcommittee. I am tied up with a lot of briefings now. I would be pleased if another of the members was on that. I am tied up with these briefings and sitting on this committee would further tie me up.

Mr. Knight: If Mr. McGuigan is declining, I will accept it if the committee sees fit.

Mr. Chairman: You are placing your own name in substitution for Mr. McGuigan's.

Mr. Knight: May I do that as mover?

Mr. Chairman: It is seeking power. Is there any other discussion on the motion?

Motion agreed to.

Mr. Mackenzie: Before you leave that, we may have to do some adjusting in other areas, but if you are coming back for a briefing as early as Tuesday or Wednesday, that may or may not give us some of us a problem. The members' services committee is supposed to sit on Tuesday, Wednesday and Thursday--three days. I only raised it. I would not stop things as a result of it. I know the importance of getting this moving.

Mr. Chairman: What is sitting next week?

Mr. Mackenzie: There may be a members' services committee sitting Tuesday, Wednesday and Thursday. I do not use that for anything other than information. It is how fast you get the first briefing.

Mr. Chairman: That is up to this committee to decide tonight. Item 6 on the agenda is the schedule of committee business. Looking at 5, 6 and 7, perhaps it would be appropriate if we jumped to 6 now.

Mr. Taylor: After all, there is a freeze on advertising.

Mr. Chairman: There is apparently a precedent for getting around that freeze without changing the ad agencies.

Mr. Mackenzie: Are you leaving the advertising there for recommendations from the subcommittee? That would be perfectly

okay as far as I am concerned, but you are going to have to think in terms of advertising so the public can have some input into this committee. Usually, from my experience, that means getting ads out in various papers within a certain period of time.

Mr. Chairman: If you want to deal with advertising now, we can.

Mr. Mackenzie: I would be quite willing to have a recommendation come in from the subcommittee. That is the easiest way to deal with it.

Mr. Chairman: Does anybody wish to speak to the matter of whether we should have advertising to begin with?

Mr. Mackenzie: I presumed from the beginning that we would be involving the public and allowing for public input. That means you are going to have to advertise.

Mr. Chairman: Would you like to move that the subcommittee consider that?

Mr. Mackenzie: I would recommend that the subcommittee consider the advertising necessary.

Mr. Chairman: All in favour of the motion. Opposed?

Motion agreed to.

Mr. Chairman: Now to item 6, schedule of committee business, which involves our potential holiday schedule for the summer. I had tentatively thought about the idea of the subcommittee working next week and the full committee working the week after, but I have heard comments tonight that suggest that the full committee could be going even sooner.

Mr. Mackenzie: If you had some specific recommendations to come in and a couple of good briefings for the committee as a start for their local people, the subcommittee could line that up next week and begin the following Monday. That would be excellent. You want to start with some people here and some specific recommendations.

Mr. Chairman: Once we get started a week Monday, I imagine we are going to be ploughing through, I hope with some time off in August. My own thoughts on this--

Mr. Ferraro: Do you have a vacation schedule prepared?

Mr. Chairman: This is where you raise this. I am sure you all have thoughts in your own minds about vacation time. Maybe we could hear from anybody who has any desire to be absent for a period of time. I understand the House is going to be permitting substitutions in this committee. That is going to be brought forward before the House adjourns tomorrow.

Mr. Taylor: It was today.



Mr. Chairman: Was it? Okay. With that having occurred--

Miss Stephenson: I heard one. I thought it was the select committee on energy. Was it all of them?

Mr. Chairman: That being the case, it gives us a little more freedom to be absent and have substitutions. Unless there is any real objection, the presumption is that once we get started, we will carry through for at least three or four weeks.

Mr. Taylor: There is always going to be someone who cannot make it to a meeting or week of meetings. We can take that for granted. It is going to be very difficult for this committee to set a summer schedule in advance because we will no doubt be calling on witnesses, people who have the expertise, and when they can come may depend on their timetables. We may have to play it by ear. As long as we get some idea about the weeks the committee does not want to sit, we will have to work around that.

9:20 p.m.

Mr. Mackenzie: I think you will have to allow some leeway for the subcommittee when it comes back with the recommendations. As I see it, there is no way you are going to start getting the public without advertising for a number of weeks down the road. There is a very useful period of a couple of weeks that could be spent on acquiring some expertise and briefings we are obviously going to need. We have talked about that already. However, the scheduling may get a little dicier from then on. It depends on how fast you can pull in people and what kinds of recommendations you get for people who should be talking to you.

Certainly as part of the public input or even as some separate expertise when we get into the overall briefing, a session with somebody such as Bob White and the senior staff he has in terms of the auto stuff would be excellent with respect to their overview as well. That might or might not be scheduled relatively easily. They are pretty busy people too.

You have to leave some flexibility with the committee. Most of the first couple of weeks is going to be briefing and people who might help us focus a bit on what we want to do. It is going to take a while from there to get public input. I am presuming you are going to have to do a bit of moving around the province unless you intend to do it all from Toronto. If you are going to allow public input and do advertising, I think you have to pick at least three or four centres in Ontario.

Mr. Chairman: My thinking was that we had to start here and we will be spending most of the summer here.

Mr. Mackenzie: With respect to briefing, I agree. That is not the difficulty. Once you get into the input it will be a little more difficult to do that.

Mr. Chairman: I see us travelling around the province in the fall and only when we really know what this province needs would we perhaps go elsewhere.

Mr. Mackenzie: Ottawa can serve two purposes, but I think you are going to have to seriously consider Washington as well.

Mr. Chairman: I think so too, but we need to know a lot before we go there.

Mr. Ferraro: If there is going to be a break it should be early on. I really question whether ploughing through four weeks continuously now will be very productive. We have to give people a chance to prepare submissions, even briefings. It is wiser to take a break early in the summer, maybe after one or two weeks' start, and then go continuously once we have given people a chance to prepare submissions and get into public hearings.

Mr. McFadden: Apropos travelling, I talk about it with trepidation because committees get into problems with travel plans. Certainly I endorse the idea of getting around Ontario. A lot of communities have a real interest in trade issues. Some of them are single-industry; others are more broadly interested.

Interjection: Such as Sandy Lake?

Mr. McFadden: I think, though, before we come out with the interim report, and I heard Washington mentioned, it is almost essential to go there and speak to them about how they see this thing going. To prepare this interim report in a vacuum, just having talked to ourselves with no input at all from there or any sampling of opinion directly from them--you can bring them up here or we could go down there, it does not matter--but it is pretty important in the initial stages that we do some sort of direct, one-on-one sampling on how they see this going, both talking to people who are free-trade advocates but, just as importantly, congressional or Senate leaders who are against it and are very protectionist minded. I think it would be a bit of a dash of cold water, to some extent, for us to actually sit down with their tough people with some major beefs about Ontario industry or what Canada is doing. That would be a salutary thing for us to undertake, too.

Mr. Mackenzie: You would have to do that before the interim report.

Mr. McFadden: That is exactly what I am saying.

Mr. Mackenzie: It is part of the briefing process. There is some very good expertise with respect to arranging meetings with some of the United States House of Representatives committees or people who are involved in it. Certainly our clerk's office knows the people to contact. We have had some good briefings in other committees down there.

Mr. McGuigan: We probably should go for the first two weeks, starting next week, and then knock off a week. By that time three weeks will have gone by and your advertising will have pretty well reached a lot of people and we will have made some personal contact with a lot. From then on, with the enormous job

we have ahead of us, we are just going to have to plough on through all the rest of the available time. We will take time off for visiting some places in Ontario, and near the end we will visit Washington or invite the people from Washington here.

First, we would have to get this broad picture before we can talk to the Americans.

Mr. Chairman: You are talking about the subcommittee meeting next week and our committee meeting the week of July 22 for one week?

Mr. McGuigan: Our subcommittee and our main committee go together next week.

Mr. Chairman: That was not my understanding.

Miss Stephenson: One of the things that is potentially troublesome is that we are going to ask the internal experts to develop briefing capacity, which because they perhaps have not done it recently, they will have to update. They are not going to do that overnight, particularly not with the responsibilities they have for briefings and other things right at the moment. It may take them a little while to do that.

The thing that is important is the initial contact with the various ministries to ensure that we extract from them the appropriate people to begin development of these briefing materials. Then, as you suggested, maybe on Monday, July 22, we can begin with that kind of briefing along with the request from them that they give us ideas about the names of external experts. We could then begin to contact them.

It is going to take us four to six weeks to organize all the people we want to have briefing us as experts from the external group. If we are going to be briefed before we start listening to those who want to come in simply to talk, we are really looking at mid-August before we begin.

Mr. McFadden: There is no sense in going out there without being briefed ourselves.

Miss Stephenson: Not without knowing what we are doing.

If the subcommittee gets started relatively soon, it will have a better idea about what the time frame is likely to be. At this stage of the game we are whistling in the barn trying to determine what the dates should be or what the time frame should be. We know we have some urgency facing us; that is all.

Mr. Knight: Since we are at Thursday and tomorrow the House is sitting, and since we seem to be agreed that we should have some briefing from some of our own House experts and some of the ministries, I wonder if the chairman could make that overture to the ministers to get them thinking of how they would like to brief us, so they can get moving on it.



With that function already in process, the subcommittee could then meet, perhaps next Tuesday, and further develop things it would like to mention to the ministries that would be briefing us and discuss the other items that have been referred to the subcommittee at that time.

That would give the ministry people a week to be preparing themselves with a view to having some briefing the week following next.

Interjection: Does the United Nations have any expertise?

Miss Stephenson: The World Bank has a lot. There are a couple of Canadian experts with World Bank experience in Ottawa with the Department of External Affairs. One of them was the Canadian vice-president of the World Bank until a year and a half ago.

Mr. Bennett: I will bet you we can also go to the banks in Canada, because they have experts.

Miss Stephenson: Right; they sure do.

Mr. Bennett: They have whole departments for nothing else but to try to--would the right word be "to manipulate" on behalf of the clients?

Mr. Ferraro: Not our banks.

Miss Stephenson: I would think to maximize on behalf of their clients.

Mr. Bennett: I am only a layperson. I do not have the expertise of a lawyer to put it into the right terminology so I do not get in trouble.

Mr. Knight: There is nothing wrong with insurance brokers.

Mr. Bennett: They are upstanding and forthright.

9:30 p.m.

Mr. Chairman: The clerk has just pointed out to me that we are expected to give some indication as to what dates we are interested in sitting. They go into a hopper and there could be a problem of scheduling if we wait until the last minute to decide there are some dates we want to sit.

I cannot believe the House is going to be that busy all summer. Is it? That may be a problem; I do not know. As I hear the committee discuss this, I can see all kinds of reasons why we do not know exactly when we are going to be sitting.

Mr. Mackenzie: For once I agree with Miss Stephenson. She is probably right; it is going to take a little while to do everything we are suggesting. But there is no reason why the subcommittee cannot meet for a couple of days next week and bring

us back on the following Monday or whenever. There could be a recommendation about the times we will be sitting and maybe some preliminary ideas on staff, but certainly some people we should be sitting down to have a briefing with.

I think they have the authority to go ahead if they can arrange for some of the local ministry people to be here on the same day or the day after they are filling us in on what they are suggesting to us as a committee.

If we try to work it out here, we are nuts. We are going to need the time; that is obvious. Let the subcommittee bring back the recommendation to us. They could take as much time as they need next week. Probably a couple of days would do it.

Mr. Chairman: You are suggesting then that the one day we should be reserving is perhaps Monday, July 22?

Mr. Mackenzie: Not for any particular reason, but it seems to me we need some time to pull together such things as the timing, what we want to do in the way of hearings, what the dates are, whether we are going to take a break for a couple of weeks in late July or the first week of August, how much briefing we can get in before then, when we should have a discussion with some of the people in Washington and what are we going to do in terms of the public hearings.

I think at least a rough outline can be done by the subcommittee. It would be best to leave it in their hands to come back with their recommendations.

Mr. Ferraro: May I assume that the subcommittee would make its recommendations next week and subsequently would mail or courier to each member what is planned for the following week; in other words, if it is one, two or three days?

Mr. Mackenzie: I think they have the authority also to suggest what our sitting schedule should be over the next 10 or 12 weeks.

Mr. Ferraro: What I am saying is that we should know in advance as opposed to going to that meeting and finding that we have to stay another two days.

Mr. McGuigan: One of the additional problems we have on this side is that almost every person who is not a minister is on two committees. I was looking down the list the other day; we have the worst problem of all in filling this committee.

Miss Stephenson: We went through this for years.

Mr. McGuigan: But not quite as bad.

Miss Stephenson: No, not quite. That is right.

Interjections.

Mr. McGuigan: That is why I have been saying we should forge ahead now.

Mr. Mackenzie: But the subcommittee surely will discuss it. There are a couple of your people on it. They can discuss the time.

Mr. Chairman: I take it what we are saying is that the subcommittee can not only make certain plans but actually put the schedule into the hopper on behalf of the committee. I am sure we will not be held to anything in stone if something goes wrong down the road.

Mr. Mackenzie: If it has all the wrong weeks, then I will kick hell out of Karl. That is all I am worried about.

Mr. Chairman: Do we need a motion?

Mr. Mackenzie: I think we have covered it.

Mr. Chairman: Okay; that is understood.

The only other area to be discussed is budget. We have two drafts that have been prepared. There are certain items we cannot look at yet; one is outside staff, and the other is travel. We have not come to any firm conclusions in this regard.

The draft I am looking at right now has to do with 14 weeks of sittings. I apparently have to propose the budget Monday. It has to be considered and passed. This will be presented if the committee agrees. It is a barebones budget for 14 weeks of sittings. It includes transportation and communications, services, the advertising you have all endorsed, translation/interpretation, catering--which I understand includes coffee; \$5,000 or \$6,000 of that is coffee, believe it or not--supplies and equipment, and so on.

Of course, we will have to come back eventually when we are certain what our travel budget will be, and we will have to come back when we actually have a proposal with regard to outside assistance.

Mr. Ferraro: Can I ask a question?

Mr. Chairman: Certainly.

Mr. Ferraro: Is it normal that only eight members can travel? I am sorry to interrupt you.

Mr. Chairman: I believe eight of the 11 of us are from out of Toronto.

Miss Stephenson: That is not travelling.

Mr. Ferraro: I was going to ask, were we going by rickshaw?

Mr. Chairman: That is your trip from Guelph to Toronto.

Miss Stephenson: And your accommodation in Toronto.

Mr. Ferraro: I see.



Mr. Mackenzie: One of the things we have always argued for in committee is that, unless there is an agreement within the committee for subcommittees or to split it, the committee should always travel in total. I think this deals with the travel to Toronto.

Mr. Ferraro: I stand corrected.

Mr. Knight: Recognizing, of course, that some of us like to drive in every day, the budget is padded to a certain extent.

Mr. Morin-Stom: Is the travel outside Toronto included?

Mr. Chairman: No. This is just travel for the eight committee members who live outside Toronto to and from Toronto and accommodation here while the committee is sitting in Toronto.

We have not really discussed where we are going outside of Toronto yet, and I did not expect we would tonight. This is simply an estimate to get in front of the board on Monday so some things can pass. I think the board will understand it is a rough estimate. It has to be a rough estimate at this time so we can carry on this summer. It is supposed to go to March 1986, but if we can carry on at least knowing we are going to be sitting a number of weeks when the House is not sitting in Toronto, then we can come back when we put together a schedule for travel.

Miss Stephenson: Are you really proposing to sit five days a week? For example, 50 days turns out to be five days a week for 10 weeks.

Mr. Chairman: The clerk has projected that. He is presuming that. I do not know that we would have to do it. Perhaps you would like to amend that.

Miss Stephenson: The select committee on company law never even sat that often, and it sat for ever.

Mr. Taylor: You have to remember, Bette, some of those days will be travel days.

Miss Stephenson: These are not travel days, dear heart. This has nothing to do with travelling at the present time. These are just sitting days.

Mr. Knight: If you want to meet on Mondays and Fridays on the beautiful shores of Georgian Bay, we can sit five days a week.

Mr. Mackenzie: Again, the subcommittee can meet. There are some weeks when you start travelling around the province or having special briefings when you may need it, but I am a great proponent of three days a week when you get away with it or, at the most, four.

I do not want to prejudge that, but I think the budget covers the total or the maximum. The subcommittee can make recommendations on a more realistic basis once it gets together.

Miss Stephenson: There is an important physiological law to remember, and that is the brain will only absorb what the bottom permits it to. If you sit for five days a week in committee--have any of you sat for five days a week in committee? I have, and I tell you it is probably the most exhausting, nonproductive experience you can go through. It is not sensible to suggest that we are going to do it on a regular basis. There will be times when we will have to do it.

Mr. Mackenzie: Again, for the second time, and there is something wrong here, I agree with Bette.

Miss Stephenson: Robert, I could die of shock. This is the first time in 10 years, I would like you to know.

Mr. Chairman: The Board of Internal Economy sets Monday. This is first time I have done this, but I presume I have to present something to it. I did not really, and neither did the clerk, put my mind to the thought that we might be sitting three days or four days. He had to come up with something, and that is what he came up with.

9:40 p.m.

Miss Stephenson: If you were to suggest that on average we would be sitting probably three days a week for 14 weeks--God help us--I think that is a reasonable outside figure. But I think it is a bit excesssive to suggest five days a week for 14 or 10 weeks.

Mr. Chairman: From the discussions tonight, we will be back on July 22, and we can make those decisions then.

Miss Stephenson: It will be finalized. Okay.

Mr. Chairman: I am not suggesting we must accept this as a budget; but if we do not, we have to go back to the computers and the adding machines, and I guess that could be done before Monday.

Miss Stephenson: Actually, if we were to look at the less concentrated sitting sessions, the second budget would provide sufficient funds to cover the activity.

Interjection: Which one are you referring to?

Miss Stephenson: It is the one that is on the basis of 10 weeks, the \$135,000, 10-week one, because if we were to do it three instead of five days a week, for a longer period, that is right.

Mr. Chairman: We could do that or, as an alternative, perhaps I could present the 14-week budget. Perhaps it could be suggested to me tonight that I present the 14-week budget with the figures altered to reflect an average week of three days.

Mr. Taylor: You must remember there has to be some potential for flexibility. If we go down to Washington, where does that come in?

Miss Stephenson: It is not here.

Mr. Taylor: Or if we go to Ottawa?

Miss Stephenson: It is not here.

Mr. Taylor: No. It is not.

Interjection: It is just a preliminary budget.

Mr. Taylor: I know, but is it the expectation that we run back to the board?

Mr. Chairman: Yes. I will tell the board on Monday that we will be back when we know where we are going.

Mr. Bennett: We will have to go back for staff.

Mr. Chairman: Yes, when we have it.

Mr. Mackenzie: I think that has been done in the past, and you do not know until you have done some of the arranging. I do not know how it goes either. I have never had the responsibility for doing it, but I presume that as long as they know when you present this preliminary budget that it is not a final one, you will have the authority to go back to them.

Mr. Taylor: But I am just saying--and I am not one for extravagance, believe me; a decade ago I was condemned for grinding the faces of the poor, as you know, Mr. Mackenzie, as Minister of Community and Social Services.

As I say, I believe in frugality without being parsimonious; but if you bring in a budget of \$135,000 when it is not realistic, if I were sitting on the board, I would just wonder what the heck was going on, because in this committee I think it is implicit in the terms of reference that there is going to be some travel.

Mr. McGuigan: If we are going to avoid criticism and pay some attention to value for money, we cannot get away with less than four days. Say you go to three; the travelling portion coming and going is paid whether you cover three, four or five days.

Also, if you are going to say even three full days, starting at nine or 10 o'clock in the morning, you are probably going to get an expense account for one day more. For instance, if I am going to be here on a Monday morning at nine o'clock, I will come in Sunday afternoon and you will get a bill from me for Sunday. I might not put in one for Friday; I might go home Thursday afternoon and just put in for that day. In many cases you are going to get a charge for a full day beyond the actual sitting days.

If you are going to get anything done, if you are going to make four days really three and a half, or three days just two and a half, it is getting pretty darned expensive on a unit basis. My own feeling would be that we should have not fewer than three and a half working days, which is really four days.



Mr. Taylor: You have to remember it is a pretty tight time frame in our terms of reference. We are talking about three months. You are not going to accomplish any kind of report except "leave to sit again" unless we put a lot of time in.

Mr. McGuigan: That is right. It seems to me there are all kinds of people out there just waiting to rush in, especially as they start reporting on the committee and more people hear about it. The last two weeks have generated another two months of people coming.

Mr. Ferraro: Listening to what has been said, and you people are much more familiar with this than I am, you do need a figure for Management Board. May I--

Miss Stephenson: It is not Management Board; it is the Board of Internal Economy. Management Board has nothing to do with it.

Mr. Ferraro: The Board of Internal Economy, pardon me.

Unless you are going to alter your figures, I suggest you go with the higher figure and work out the appropriate scheduling at a subsequent date.

Mr. Taylor: It is going to be more than the highest figure here in any event. If we bring in witnesses and experts, we are going to have to pay them; we are going to have to pay their transportation and accommodation. If we have to go to Washington or Ottawa, we have got that too. So it is going to be more than this amount in any event.

Miss Stephenson: And there is the staffing.

Mr. Chairman: I cannot imagine us having a very good handle on how much it is going to be a week or even a month from now. That is why I okayed going ahead and preparing this. Is it the view of this committee that we simply do not present this on Monday? We could wait until we have had more discussion on travel and we have knowledge as to--

Mr. Cordiano: I think they need something.

Mr. Bennett: Either you go with an interim budget and account for it in very specific terms or you just say that \$175,000 or \$200,000, or whatever the figure, is needed to commence the committee's activities and the final budget will be available to us only when we know staffing and other things we might have to pay for.

Interjection: Surely they would understand that.

Mr. Bennett: I hope common sense would prevail, but there is nothing to say that does happen.

Mr. Taylor: Otherwise, we are going to sit around here and talk to ourselves all summer.

Mr. Mackenzie: There is nothing wrong with going with your higher figure, but I think you have also got to make that clear when you go before the Board of Internal Economy on Monday. They may want you to make some adjustment then. I do not know exactly how they operate, but you are going to be coming back in with witnesses, travel and extra money. The clerk may know better than I do. They may want to put a preliminary figure in there, or something to start with, or they may want you to come back in with something, but surely that can be worked out when you talk to them on Monday.

Mr. Chairman: My advice from the clerk is first of all that he does not know when they are meeting after Monday; so that could hold us up. Second, it would be perfectly proper for me to go forward with this as a tentative budget, making it clear to them that we are coming back later for more.

Mr. Mackenzie: That is the point I am making. You will probably need some of that cleared very quickly in terms of witnesses and staff and everything.

Mr. Chairman: Would somebody like to move that I present this budget with the caveats that have been discussed?

Mr. Ferraro: I so move, Mr. Chairman.

Mr. Chairman: All in favour? Opposed? Carried.

Motion agreed to.

The committee adjourned at 9:49 p.m.

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Continued  
Page 1

SELECT COMMITTEE ON ECONOMIC AFFAIRS  
ORGANIZATION  
ONTARIO TRADE REVIEW  
TUESDAY, JULY 23, 1985  
Morning sitting





SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)  
VICE-CHAIRMAN: McGuigan, J. F. (Kent-Elgin L)  
Bennett, C. F. (Ottawa South PC)  
Cordiano, J. (Downsview L)  
Ferraro, R. E. (Wellington South L)  
Knight, D. S. (Halton-Burlington L)  
Mackenzie, R. W. (Hamilton East NDP)  
McFadden, D. J. (Eglinton PC)  
Morin-Strom, K. (Sault Ste. Marie NDP)  
Stephenson, B. M. (York Mills PC)  
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Leluk, N. G. (York West PC) for Mr. Bennett

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

From the Ministry of Industry, Trade and Technology:

MacDonell, G. S., Deputy Minister

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, July 23, 1985

The committee met at 10:07 a.m. in committee room 1.

ORGANIZATION  
(continued)

Mr. Chairman: Perhaps we can get started. We hope the other two members will join us shortly.

Since the last meeting of this committee, we had a meeting of the subcommittee on agenda and procedure. I believe a memorandum was sent to you by the clerk outlining some of the decisions made by that committee.

The schedule we proposed was that this week be consumed by briefings from ministries and that next week be consumed with briefings from interest groups that have a wide range of interests, such as the Ontario Federation of Labour and the Ontario Federation of Agriculture and groups representing consumers and manufacturers.

Subsequent to the meeting, when the clerk contacted various people to invite them to the committee, it was found we had to alter that slightly. It is proposed to have Professor R. J. Wonnacott of the University of Western Ontario appear before the committee on Thursday. Some of the ministries will not be prepared to begin until next week, but I do not think that is a serious problem.

It was suggested we not schedule any meetings during the week of August 5 through 9 and that we plan then on trips to Ottawa and Washington, to be followed by the general presentation of evidence from witnesses. That would include other interest groups and anyone else who wishes to speak to us.

There have been some problems with regard to the proposed trip to Washington. The subcommittee was of the view we should go now before we hear much more. It would seem that Congress adjourns for exactly one month from August 4 through to September 4. It might be the case that we would be able to accomplish more if we put off that meeting.

I have also been approached by at least one committee member who would like to expand his holiday from one week to two. I cannot fault him for that. While I would propose to continue to sit from August 12 to 16, it may be we will start hearing some general witnesses during that week or that some of the witnesses we proposed for this week and next will not be reached and will be heard then.

Matters become a little vague from that point. I would propose we carry on with the suggestions we have at this stage. The subcommittee can meet again from time to time and make decisions as we move along.

The budget was not presented to the Board of Internal Economy because it was not prepared to hear us. It had too fat an agenda. I will be presenting that next Tuesday morning. I do not think there is any huge change in that regard.

With regard to advertising, a draft has been placed in front of you, prepared by Foster Advertising Ltd. from a text prepared by Mr. Arnott. There are a couple of changes I would propose. First, in clause (a), which concerns the appropriate bilateral trade options, there should not be a comma after the word "trade." Second, in the second last paragraph, "The select committee commenced...." since public hearings are starting today. Third, it has been suggested that in naming the chairman, because there is another member of the Legislature with a name very similar to mine, the word "Kitchener" be put in brackets after that.

Mr. Taylor: Or you could put Liberal, if you are concerned about something rubbing off.

Mr. Chairman: That is an excellent idea.

Mr. Taylor: With a suitable logo.

Mr. Chairman: Yes. Could I have a motion that the advertisements be placed? They will be in daily newspapers once, as well as the Financial Times, Financial Post and the Globe and Mail Report on Business.

Mr. Taylor so moves and Mr. McFadden seconds. Is there any discussion?

Mr. McFadden: May I ask one question, seconding the motion, nevertheless?

Mr. Chairman: Yes.

Mr. McFadden: We have left it open-ended as to written submissions. I wonder if it would not be useful to put some form of deadline. I know we face one of mid-October for our preliminary report. From reading this, it seems people could continue to file with us for the next two years. I am wondering if we should not note some form of a deadline for submissions, so that we are at least going to have some idea of what people want to supply to us in the way of written submissions, at least by a certain time.

Mr. Chairman: We discussed that in subcommittee. The view was that if we set a date in the near future, it might prevent some submissions. Apparently, the clerk has never known a situation in which a committee did not consider a submission even if it came in after deadline. It is not a serious problem for most witnesses because so many organizations are prepared right now to argue the issue and have material prepared.



Of course, if it is the view of this committee that we should have a deadline, then so be it. Does anyone else has anything he wishes to say on that?

Mr. McGuigan: I would recommend we leave it open. I realize it causes some difficulties, but if you do not, you are open to the charges you are not really prepared to hear the public. Unfortunately, as the committee goes along and generates more publicity, that stimulates people to put in briefs. I think we should accept them.

Mr. Taylor: These hearings are manifesting the renaissance of open government.

Mr. Mackenzie: I wonder if we should not discuss the schedule a little bit more before we get into the advertisement. Inasmuch as at the moment you seem to be dealing with the advertisement, do we need the word "bilateral," or are we overemphasizing that in the announcement here? I wonder if it is a bit restrictive.

Mr. Chairman: The (a), (b) and (c) in the advertisement are taken directly from the instructions of the Legislature.

Mr. Mackenzie: I understand that and I think (b) probably gives us some flexibility in issues that arise. It just seems to me to give a bit more of an emphasis the way it has been placed using the word "bilateral."

Mr. Chairman: I see your point. I wonder if it might be wise to remove that word so it says "the following trade issues."

Mr. Mackenzie: In the title and the leadoff sentence. I think (a), (b) and (c) are the key components and there is some flexibility with (b) there.

Mr. Chairman: Do you also propose removing the word "bilateral" from the heading "Bilateral Trade Review" and just putting "Trade Review"?

Mr. Ferraro: In connection with that, I think Bob raised a good point. The committee may want to consider, instead of "Bilateral" in the heading, putting "Ontario Trade Review" to show the distinction from the federal committee that is looking at it from a Canadian perspective. That is just a suggestion.

Mr. Chairman: It is a good one because we are being asked right now why we are doing this when the feds are doing it too.

Mr. McGuigan: I rather like "Bilateral Trade Review" because the big discussion in Canada today is free trade, fair trade, or whatever name you want to call it, with the United States. From time to time, I am sure, during the committee hearings references will be made to other trading nations. I think the committee itself could certainly have enough flexibility to listen to them, but I do not think we want to have a lot of briefs on Canada-Japan trade or Canada-Europe trade because we are focusing on Canada-US.

Mr. Cordiano: In discussing bilateral trade or free trade with the US, I think what enters into the picture is also the question of other alternatives for trade with other nations. In looking at the first question, we have to look at the options. Perhaps our main focus will be on free trade with the US, but we should also investigate the possibilities of our trade patterns with other nations and what is coming out of them at present for a fuller understanding of how we are approaching free trade with the United States.

Mr. Chairman: So you would be in favour of removing the word "bilateral"?

Mr. Cordiano: I think we are reviewing the entire question of trade.

Mr. McFadden: I strongly endorse that. I sound like a broken record. I said the same thing at the last meeting as well. Since we last met, the trade ministers of the European Community, Canada and the United States and Japan got together in the Sault. One of the things that clearly came out of that was a tremendous concern about the new General Agreement on Tariffs and Trade round.

10:20 a.m.

I think this committee should take a look at that. It seems to me Ontario has an interest, not only in bilateral trade arrangements with the United States, but also in the broader perspective of what could happen if the new GATT round gets going. Unless we set up a new select committee every year to look at issues other than trade, it makes sense to me, since we have a one-year mandate and since the GATT round may well start next year, to take a look not only at US-Canada relations--perhaps we could limit that in the first three months--but also at an expanded view. In fairness to Ontario manufacturers, farmers and so on, we should be looking at all the options that are available.

I suggest we not leave the implication that the only interest this committee will have over the next year is going to be strictly Canada-US. We have already discussed that the terms of reference, without amending them, could allow us to expand past it.

In the public notice, I suggest--and maybe that is something we will have to decide today--we take out the word "bilateral" and the constant references to bilateral and talk about trade, but emphasize that one of the issues we are looking at is the question of some form of a bilateral trade treaty with the United States. I do not think we should limit it. This particular advertisement would indicate that if someone were preparing a submission to us, he would tend to limit his submission to Ontario-US or Canada-US. I recommend very strongly that would not be wise in view of current developments worldwide.

Mr. Mackenzie: Instead of "Bilateral Trade" or "Trade Review" in the heading, I would be inclined to call it "Ontario Trade Review." In the first sentence, the word "bilateral" could be removed and it would read, "the following trade issues." The

bilateral discussions are well covered. The (a), (b) and (c) sections, except (b), in my opinion, give us the flexibility to deal with all of the other connotations. Sections (a), (b) and (c) were in the original recommendation.

It would be useful to make it "Ontario Trade Review" and to remove the word "bilateral" in the first sentence. Then there would be less uneasiness on the part of some of us.

Miss Stephenson: There is not any doubt in my mind that any arrangement we make bilaterally with any group will have implications for a significant number of other groups. Therefore, I have some real concern about suggesting that we are looking at bilateral arrangements in specificity. What we are looking at is US-Canadian trade arrangements and their implications for all of our other trading partners, who are not quite so significant for Ontario now.

I have a little bit of concern that "Ontario Trade Review," or whatever you are going to call it, would emphasize anything that was bilateral unless we are talking about multilateral trade with all of our fellow provinces, which would be a great idea if we could manage it on a free or relatively free basis.

We should simply remove "bilateral" wherever it is a part of this. I thought we had almost agreed to that at our organizational meeting. Almost all of us felt relatively strongly that there were strong implications for all other trade arrangements in any aspect we examine. We have to be open enough to accept that.

I would feel better if we just removed "bilateral" because if we want to talk about Canada-US trade, we can call it "Canada-US trade" without suggesting that it is bilateral exclusively and removing any possibility of looking at the implications for other arrangements.

Mr. Chairman: Would you care to propose an amendment to the motion?

Miss Stephenson: Yes, that wherever it says "bilateral," the word simply be removed.

Mr. Taylor: I would agree with that. I moved that motion so it could be discussed. It struck me that the word "bilateral" was a little restrictive when I made the motion, but I would not have any concern about including whatever amendments there may be.

Mr. Chairman: So you would adopt that in your motion?

Mr. Taylor: Yes.

Mr. Chairman: The word "bilateral" is seen four times. The last two times they are taken directly from the terms of reference given to us by the Legislature.

Is it the wish of this committee to remove it all four times or only the first two times?



Miss Stephenson: We know the terms of reference given by the Legislature, but it is the committee's option to determine whether it will include those terms of reference as part of the guidelines for those who are wanting to make presentations. I do not think we are bound to include the terms of reference specifically in this advertisement.

Mr. Chairman: No, we are not bound to.

The motion is that the word "bilateral" be removed in every instance. The clerk has mentioned it is written five times.

Miss Stephenson: Where is the fifth one?

Mr. Chairman: In the heading, "Bilateral Trade Review." In the text in the beginning--

Miss Stephenson: Sorry. I thought that would automatically fall if we removed it from the text, but I suppose it is important to include the heading.

Mr. McGuigan: It is redundant in (b) and (c) because if you are talking about Canada-US trade, it is bilateral.

Mr. Chairman: Yes.

The motion now on the floor is that the advertisement be accepted and placed in the newspapers with the appropriate changes.

Mr. Taylor: In the main heading, would you have "Ontario Trade Review" instead of "Bilateral Trade Review"?

Mr. Chairman: Will you amend your motion to put the word "Ontario" instead of "bilateral" in the heading and make the other cosmetic changes?

Mr. Cordiano: I suggest that in the subheading we use "Ontario Trade Options."

Mr. Chairman: Instead of "Ontario Trade Review"?

Mr. Cordiano: I am throwing that out as a suggestion; it is just for thought. We are looking at options.

Miss Stephenson: I know we are looking at options. If we are reviewing Ontario's current trade, obviously we will be reviewing options for Ontario's trade as well. I wonder whether it sounds a little pretentious or presumptuous to suggest that we are looking at Ontario trade. I do not know how we would define it then, but I have some concern that we are going to be seen to be absolute duplicators of current activities going on elsewhere.

Mr. Taylor: Are we?

Miss Stephenson: There is no doubt in my mind that we are going to hear precisely the same thing from Jack Warren, Abraham Rotstein, Ronald Wonnacott and Richard Lipsey that the federal committee is going to hear. I wonder whether we can just ask them for their presentations.

Mr. Taylor: Why hide that? Why disguise that? If we are reploughing the same land, we are reploughing it.

Miss Stephenson: The taxpayers pay for all of this, Mr. Taylor. I am concerned about what they view as appropriate activity; that is all.

Mr. Taylor: I am not an apologist for the government.

Miss Stephenson: Neither am I; but I am a taxpayer, and I damned well want my money spent economically, thank you very much.

Mr. Ferraro: I share some of those concerns. I do not think the government needs to have any apologies. We have to emphasize that we are looking at it to a greater degree from an Ontario perspective. I do not think we should disguise the fact that what we are interested in is Ontario's perspective in the Dominion.

Interjection: Absolutely.

Mr. Knight: Although the presentations may be similar, I hope the questions might be a little different and therefore what we have as--

Miss Stephenson: Even if you ask different questions, you are going to get the same answers.

Mr. Chairman: We are getting a little off the topic. The suggestion has been made that we change the heading from "Ontario Trade Review" to "Ontario Trade Options." I do not think it has met with a great deal of enthusiasm. We are ready for a vote.

Mr. Mackenzie: This is on removing "bilateral."

Mr. Chairman: It is on removing "bilateral" and putting in the word "Ontario."

Miss Stephenson: This is an all-inclusive motion.

Motion agreed to.

Mr. Mackenzie: Is it possible to go back? We have just gone through a review. I have been in Ottawa for two days, and I am just now looking at the scheduling. We will have difficulty getting an interim report in the time frame they want. I agree with that but, at the risk of sounding a little selfish, I would not mind adding my name to whoever else has talked to you about loving the idea of having at least two weeks this summer. We have been through a fairly difficult few months in Ontario.

Miss Stephenson: One might even call it gruelling.

Mr. Mackenzie: I would love to see us break for two weeks rather than one. There obviously are some problems in arranging some of the hearings and discussions, whether in Washington or Ottawa. I am sure they can be adjusted. I would like

the committee to consider a break of two weeks rather than one week. It is going to be a gruelling committee if we are going to try to add something to the dialogue on this issue.

10:30 a.m.

Miss Stephenson: To accommodate Mr. Mackenzie, I suggest that one of the weeks would be that which you have set aside for visiting Ottawa and Washington in August.

I have to tell you that nobody is in Ottawa in August. That is an exaggeration; there are a few civil servants in Ottawa in August, but not very many. I remind you that those who are interested in interprovincial activities are all preparing for attending or doing the debriefing of the provincial first ministers' conference, which is in the middle of August.

I promise you there is nobody in Washington in August. If you want to go to Washington in August, go right ahead. I am staying in Ontario, thank you very much, because if you want to fry along with the few people who are left in Washington in August, be my guest.

Mr. Mackenzie: It should be pointed out--I am not sure whether Miss Stephenson was here--that we had already heard from you that it might be necessary to change the Washington date to September. I suspected that, knowing the Washington schedule myself. Whether or not the same thing applies to Ottawa, I do not know. I suspect there is validity in the argument.

However, I think some adjustment could be made; that is why I thought the time to take a look at a break, if we are going to do it, was probably in August. That is why my suggestion was we take at least a two-week break in August.

Mr. Chairman: Does any member of the subcommittee want to speak to that?

Mr. Taylor: I did not anticipate a trip to Washington or Ottawa during the summer, because first of all I did not think it was realistic in terms of the people we might want to see. Second, I thought we should be better informed if we are going to both centres.

Miss Stephenson: We should wait until after we have the interim report before we go to Washington.

Mr. Taylor: I did not think we should be perceived as Ontario sending the goat to look after the cabbage patch. When we do meet with these people in other centres, at least we would have some basic training.

However, we do have a problem with respect to the time frame for our interim report. If you want to take the summer off, that is fine with me; but you may find some difficulty in getting an interim report that has any meaning within three months. That is my concern.



Mr. Chairman: I think Mr. Morin-Strom had argued at the subcommittee meeting that we should go to Washington in August, or fairly soon in any event.

Mr. Morin-Strom: Yes. I thought we should get the perspective of both federal governments and consultants from Ottawa and Washington before we go into the full public session. Then we would be more informed about what the potential issues are in the trade negotiations coming up before we hear specific witnesses on specific industries and get into detailed discussions. I thought that should come earlier.

I would also endorse having a second week off in August because it looks as if August is probably a problem.

Mr. Chairman: Apparently Congress reconvenes right after Labour Day--the day after Labour Day, I think. Do you feel we could accommodate some hearings from the public in August and still get there by, say, the first week in September and accomplish something?

Miss Stephenson: Could I make one suggestion and ask one question?

First, we should utilize the excellent capabilities we have in Washington. Inviting Alan Gotlieb as our Canadian representative to come and tell us from his perspective what the concerns are, where the terrible problems are and what the jeopardy is for Canada--which I think he sees rather clearly--of free trade with the United States, is a good idea, if that is what you are hoping to achieve.

Second, what is it we are going to strive for? What is our objective in developing our interim report? I have a major concern that all we are going to know by the end of three months is what the appropriate questions to ask are and what kind of research we think needs to be done to be better prepared for the discussions.

If we are suggesting we are going to have any answers at the end of three months to put into an interim report, we are kidding ourselves. I wonder how much time the steering committee spent looking at developing our objectives for our interim report in its meeting, because we must have at least one single objective.

Mr. Chairman: Those are very perceptive questions, and we do not necessarily have answers. Incidentally, the steering committee did decide to prepare a binder. You may notice to my left Fernando Traficante, who is with the legislative library. He has been seconded to the committee and has prepared a binder with some briefing material that will be distributed later today, but that does not necessarily mean we can have answers by the end of three months. That is true. It is a huge problem. That was a question you were asking the chair. I do not think the chair has an answer right now.

Miss Stephenson: My first suggestion was that we invite our ambassador to come up.

Mr. Chairman: We have already made contact with our embassy in Washington.

Miss Stephenson: Good.

Mr. Chairman: It is prepared to assist us at any time we wish to go down. There was a hint made that it would be more productive if we went in September.

Mr. Mackenzie: I share the concern, as I mentioned at the very first session we had, as to what we can do in our interim report. I suspect we may identify some of the hot spots and some of the serious concerns as this debate opens up. I do not know that we can go an awful lot further than that.

There could be some useful hearings prior to a Washington trip, although I agree with my colleague that the sooner I get some perspective from both the federal and US levels, the more helpful it will be. For example, I would like to have a session with some people, including the union groups, prior even to going to Washington and talking to them, because they are going to be taking a look at it from a direct perspective of jobs.

If it is possible to schedule some hearings like that, we might even have a few better questions or a better understanding of what we hear when we do meet with some of the people in the United States and in Ottawa. Some of the hearings could be scheduled in August which would be useful to us going into the information sessions.

Mr. Chairman: In that context, the Ontario Federation of Labour is scheduled to speak to us next Thursday morning, a week from Thursday of this week. We have already been approached by one other union and several business groups. That will not necessarily occur next, but it may well. There is no problem in getting those groups in before we go to Washington. It sounds this morning as if that is the desire of the committee.

Mr. Mackenzie: It looks more and more like we might be able to schedule a couple of weeks off in August then.

Mr. Knight: The steering committee recognized a very real problem when we had our initial discussion in that we do not have much time before our interim report is to be presented. I understand a bit of lead time is necessary to prepare that report and get it to the point where we can review it prior to presentation to the Legislature. That cuts into the time we have for travelling, hearing delegations and coming to some meaningful objective.

Therefore, we probably will be able only to identify some hot spots and to get to a point where we have questions we would like to ask. We did look at having a threefold and, I hope, fourfold type of process through to that time, which was initially to permit us to talk to our internal ministry officials, then to bring in some people from key sectors, consumer and manufacturing associations, labour groups and, we hoped, from other areas of the public and academic worlds.

10:40 a.m.

Even speaking to people in Ottawa and Washington, the problem was in being able to find the time to accommodate all those types of witnesses in the time we have. Therefore, it was difficult to find when we could have some time off. That is why we had suggested only the one week. It was, I suspect, not only from my own personal and selfish point of view that I thought two weeks would be nice to have off. It is very difficult to see when we could have that as a full committee break.

I am wondering, as an alternative to a full two weeks off, whether we could have one week and maybe stagger some time off for the rest of the committee with substitutions. I am perfectly willing to go for the two weeks in early August--actually it is my preference--but I am not sure how we can handle that with the kind of work we have ahead of us.

Mr. Chairman: Your suggestion is that, in any event, the week of August 12 to 16 should not be a travelling week. If we do sit that week, it should be a week of hearings that are a continuation of some of the material we are dealing with prior to August 5.

Mr. Knight: I indicated at the steering committee level that, as far as the travelling was concerned, September was more appropriate for the reasons that have already been suggested here this morning.

Mr. Chairman: I do not want the debate to go on and on. I have a distinct feeling I am being directed that we should not be travelling to Ottawa or Washington until the first week of September. I think we have a consensus on that. The only other issue is how much time off we get, remembering we can make substitutions.

Mr. Taylor: Remember that, for example, for the next two weeks Mr. Bennett will be away and Mr. Leluk is substituting. That kind of thing is going to happen. If we are going to take another two weeks, I guess Mr. Bennett will be off another two weeks. If we are going to do our job and some of us cannot be here, we are going to have to have substitutes. The committee should continue as much as possible. A one-week break should probably be sufficient for the whole committee at one time.

Mr. McFadden: One of the problems we seem to be up against is the deadline we have. I am not quite clear, and I do not have the terms of reference in front of me, exactly what specific date the deadline is. I notice we are proposing in our schedule here a review of the draft interim report in the week of October 7, and I know the House comes back the following week.

It seems to me, particularly if we get into a lot of witnesses, we might want to extend the deadline one week. How rigid is that deadline? Could we get a one-week or two-week extension? I do not recall seeing a specific date in the terms of reference.

I know we are trying to work towards finishing our interim report by the time the House comes back, obviously because it is



tougher for us to carry on here while the House is in session. In the period when we are preparing an interim report we do not necessarily have to meet every day. The demanding part, from our point of view, is hearing witnesses and travelling. I do not think that would be appropriate while the House is in session, at least not extensively.

I am wondering if part of the pressure we are feeling is because we have to have everything done by October 10. If we had a one-week extension of that, it would be beneficial in regard to planning, say, Washington and Ottawa visits and other potential travel in Ontario.

Mr. Chairman: The terms of reference that were given us on July 10 order us to do an interim report within three months, which would take us to October 10. The House is adjourned until October 15. I gather from what the clerk is whispering in my ear that it would be possible not to report by October 10 and to ask for an extension on October 15.

Clerk of the Committee: The committee ought to report by October 10. If it is going to take much time beyond that, it should be reporting to the House that it requires additional time and requesting the permission of the House for additional time.

Mr. Ferraro: I may be out of order, but I think much of the discussion and much of the speculation is on scheduling and what we should do. It centres on the fact that we are supposed to report, as David and Bette indicated, at a specific time; but it is the mandate of this committee, in my understanding, to look at the Ontario perspective and it is a one-year committee.

It is ludicrous to imply that in three months we have to come up with revelations as to how Ontario's economy is going to prosper and with substantive conclusions. We merely have to report what we are doing, how we are going to go about it in the time frame. To ask for anything substantial is totally negative when one considers it is supposed to last for a year. Certainly one could argue that may not be long enough.

Perhaps we are becoming preoccupied with this report and having something conclusive in it. I do not think that is necessarily the mandate.

Mr. Taylor: Three quarters of an hour has gone by. I am not being critical of that, but we have very busy people here to make presentations. Some of the discussion will be helpful to the steering committee. Possibly we could come up with a more realistic schedule. The schedule we have is very tentative and general so now, with the benefit of that discussion, the steering committee possibly can come up with a more definite one that can be carried on.

Mr. Chairman: Thank you, Mr. Taylor. I agree. I hope we have exhausted that subject for the time being.

Miss Stephenson: Only for the time being?

Mr. Chairman: Yes. There is one other matter on which I wish to report very quickly.

On the problem of trying to determine what is needed in the way of staffing, I went through the whole gamut of thinking about management consultants and that whole thing that sometimes can be extremely expensive. We discussed it at the steering committee meeting at some length and came to the conclusion that, if this committee agrees, for now we will carry on with the assistance of the legislative research officer who can be seconded, and apparently already has been. If and when we need extra help on a special basis, and I am sure we will--incidentally, the first instance may well be with the travel, to Washington especially--then we will look at specific help, as opposed to engaging a full-time consultant which, of course, can add up to a lot of money.

So there is no concern about that. It is a matter I may bring back to you if I find we just have to have more help. We will at least go along on that basis for the first couple of weeks.

#### ONTARIO TRADE REVIEW

Mr. Chairman: This morning I have the great pleasure to introduce to you the Deputy Minister of Industry and Trade, George MacDonell. Many of you already know him. I met him for the first time yesterday and spent the morning watching the presentation he is going to give you now. I think you will find it will give us food for a great deal of thought. He certainly has some strong views and some very good, basic facts to back them.

Mr. MacDonell has a slide presentation to present to you. If it were simply presented without comment, the presentation itself would not take a terribly long time. If our guest is in agreement, I would suggest he make the presentation with the understanding there may be some questions and discussion, perhaps with each slide.

10:50 a.m.

Mr. MacDonell: My task is to give the committee an overview of Ontario's trading partners and trading position, and a review of Ontario's trading history.

Our presentation is entitled Ontario Exports Mean Jobs. I would like to discuss the importance of exports, the situation facing the province, the challenge for the province, Ontario's trade goals and the Ministry of Industry and Trade role. There should be an extra "t" on that slide for Technology but this slide is a little dated.

First, let us look at the impact of exports on the province. Forty per cent of our total output is exported. It accounts for 25 per cent of the total employment of the province and in manufacturing employment, 50 per cent of all those employed in manufacturing on the shop floor are directly related to exports.

You all know that the Japanese have become one of the principal exporters in the world, and over the last 25 years have worked very hard at it, until you begin to look at exports per capita and you see that Ontario is about three times the size of Japan and four times the per capita size of the United States. I could find no other country in the western world, except Holland, that had per capita exports of nearly \$5,000. In the case of Holland that is largely because it is one of the major ports for the common market. In US dollars, we are unique in the world because of our dependence on trade.

If we look at fully manufactured exports per capita by province, you can see that Ontario is really the only game in town. Most people will be surprised at how small Quebec is and how large Manitoba is, but that will give you some idea of the importance to the federal government of the trading position of Ontario.

Let us look at the situation. The industrial producers that we faced in the 1960s were those you see. By this time, Japan had already arrived on the scene. The countries shown in red supplied the rest of the world with goods. Immediately after the Second World War many of the developed countries were bombed flat and had to be rebuilt and so we went through a period of about 25 years where these were the exporting nations and these were the importers. Today, that has dramatically changed.

The countries shown here in yellow--Mexico, Brazil, Spain, South Africa, Indonesia, Malaysia, the Philippines, Taiwan, South Korea and now Australia and here Hong Kong--have become major powers in the world and are upsetting the whole world. Seven of these newly industrialized countries, centred in the Pacific Rim called Tiger NICs, now account for over 50 per cent of the total trade deficit of the United States.

The next thing you will want to know is what share of world trade did they take? From the period 1970 to 1981 you see the Ontario loss share, the Canada loss share, the United Kingdom loss share, France, Germany and the US--the old established exporters loss share to the newly industrialized countries which moved their market share from about 7.75 per cent to over 12 per cent, and Japan which moved up from 10 per cent to over 14 per cent of world trade.

To look at that in another way, we can look at the shares of world output to see whether or not that follows shares of world trade and it does--Ontario loss share, Canada loss share, the UK, the same players loss share, the same newly industrialized countries and Japan gain share. Here you see the reason for the tension in the United States: a high dollar; a recession and a loss of share to more aggressive competitors.

Mr. McFadden: May I ask a question on that last slide? I would assume that the problem in the United States is that they are losing shares steadily. Would that be accurate?

Mr. MacDonell: Yes. The United States is losing shares steadily.



Mr. McFadden: Do you have any preliminary figures on the impact of 1983, 1984, 1985 with respect to our performance versus that of the Americans?

Mr. MacDonell: Yes, I do. We are rising. They are still declining. I will come to that later.

If we look at Canada and Ontario exports in billions of dollars from the year 1974, all seems to be well. We are continuing to grow in billions of dollars of sales and Ontario, with 50 per cent of Canada's total exports and 75 per cent of our manufactured exports, pushes up Canada. As Ontario goes, particularly in manufactured exports, so does the rest of the country.

Let us look at Ontario's top 10 export markets. The question is to whom do we sell. Here you see that by far our largest single customer is the United States, going down through to France in billions of dollars. You will be struck by the big blanks under the curve and the dependence on one country. We are very concerned about developing a more balanced approach, and I will talk about that later.

We should look at the major Ontario exports. What do we sell? Our sales are dominated by autos and auto parts. You will notice some high technology products, here particularly. Again, you will see an enormous dependence on one line of products: transportation, namely automobiles. So you have two big dependencies: first, is the dependency on the United States as a market and, second, the dependency on automobiles and auto parts as product lines to that market.

If we look at Ontario's exports by sector, you immediately will be struck with the view that we are not as resource-based as people would have us believe. Most people think of Ontario as a country that lives by exporting the things cut down in its forests and dug out of the ground, but that is not so. Here we have consumer goods, \$4 billion; autos and parts, \$27.8 billion; capital goods, \$11.4 billion; resource-based, \$11.9 billion. Only 20 per cent of our exports are resource-based. Ontario has become a great manufacturing province.

You are going to ask me what I mean by capital goods exports. Here I am showing the annual per cent change to give you the growth rate in some of the principal commodities. Communication equipment, office equipment, scientific equipment, miscellaneous machinery, aircraft and electronic equipment of all types, those are the capital goods exports.

If we look at resource-based exports--plastic, lumber, nonferrous metals, pulp and paper and steel--we can see some of the growth rates here. Plastic is 25 per cent. That means those exports are tripling every three years.

This is an interesting slide showing what we mean by consumer goods, less automobiles: furniture, pleasure boats, pharmaceuticals, sporting goods, small appliances and hardware. We

sell some of that hardware in Japan. That gives some idea of the quality of our manufacturing base and the rate of growth of some of these areas. This would be very important to the member for Kitchener (Mr. D. R. Cooke).

11 a.m.

Service strengths: In the fields of consulting engineering, power, manufacturing technology, mining and forestry, and transportation, we have some of the best engineers in the world. In architecture, we lead the world in many categories. For example, an Ontario architect just won the contract for the Paris opera house in a world competition. In health care, we have perhaps the best in the world. In education, there is no question about it, we rank at the very top in the world.

Let us look at those things. In transportation, health care, education and training, mining and forestry, and electrical generation and transmission--this is particularly important to the Chinese because they have much the same sort of terrain over which to transmit electricity--what is the challenge facing the province? Since 1970, world exports have grown rapidly. They dipped in 1982 and again in 1983, but have almost reached \$2 trillion in US funds. In the history of the world, there never was such a period of growth, nor were so many people so well off. Fortunately, world trade has begun to grow again. I believe 1985 will be up about seven per cent and it will be more than \$2 trillion. By 1990, we expect world trade to be \$3 trillion.

This slide is a little complicated, but it is important to look at our trade in manufactured products on an import-export basis. Everything on this side of this line is exported. Everything on this side is imported. The colour difference indicates this is 1979 and this is five years later in 1984, to give you a trend. It shows that Ontario as a whole, when the exports are netted against the imports, has a trade surplus of only \$4 billion on exports of about \$55 billion. That is perfectly acceptable because we have to remember that we are supplying nine other provinces.

Now we begin to analyse the makeup and begin to see some things that are a little worrisome. In high technology, we have about a \$7-billion deficit and that deficit has almost doubled from five years ago. The same thing applies in medium technology, not so badly, and in low technology. We have made tremendous strides in automotive trade, which is cyclical. If you take out automotive and resource-based trade, where we have a positive trade balance, and look at the area of high-, medium- and low-technology products, we have a \$14.4-billion deficit. That has grown from \$8 billion in 1979. That means we are not selling in our own market as well as we did.

Are there any questions? That is a fairly complicated thing to throw at you so quickly.

Interjection.

[Page E-18 follows]

Mr. MacDonald: The total of the whole slide gives us a deficit of \$4 billion. If you take out automobiles, this adds up to \$14 billion, which means that our recovery in the last two or three years has been heavily based upon automobiles, which is cyclical trade, as I mentioned earlier. That is something the committee might be very concerned about.

Mr. Mackenzie: Is the automobile sector seen as one that could be at risk today as well?

Mr. MacDonald: Yes. The automobile industry is at risk. The reduction of the American import quotas on Japanese cars will begin to threaten our automobile industry, and the overall technology performance of foreign automobile manufacturers will affect it. Our exports for the first four months are down for the first time. No, they are not down; they have risen eight per cent, but they were running something like 25 or 30 per cent this time last year. We are now starting to trend down.

Mr. McFadden: I have a question on the previous slide with regard to the definition of high-, medium- and low-technology products. I know there are always definition problems. What qualifies in which category? We touched on that this morning. I wondered if we might get a breakdown.

Mr. MacDonald: On one sheet of paper, we have all the high-technology and medium-technology products, and we will supply that immediately. You will find the sophisticated electronic items such as computers in here and you will find steel down here on a scale of complexity. Yes, that information is available.

Mr. Mackenzie: Loss of exports, once again, in the automotive sector would have some very strong effects on Ontario's trade position generally.

Mr. MacDonald: Yes. We are so dependent. I will show you how dependent we are in a minute. I would like to deal with that question.

Interjection.

Mr. MacDonald: All over the world.

Interjection.

Mr. MacDonald: Yes. These include shipments from Ontario to any place in the world except the provinces.

Interjection.

Mr. MacDonald: No, but I could easily provide it.

Mr. Chairman: We cannot accept questions from the audience. It may be that you can talk to Mr. MacDonald afterwards.

Mr. MacDonald: I would be glad to see you.



Mr. Chairman: This meeting is basically for the members of the committee to ask questions.

Interjection: I understood these are public hearings.

Mr. Chairman: They are public hearings, and you can make representations to us at a later date if you wish.

Mr. MacDonell: I would be glad to answer that question immediately after the meeting.

Let us now look at our total manufacturing base. It is made up of about 15,000 firms of which only 22 per cent export. This is growing slowly, but 78 per cent, or nearly 11,500 companies, still do not export anything yet.

Mr. Mackenzie: Do you have any figures on how many of those companies are restricted by the rules they are operating under? They may be branch plants and so on.

Mr. MacDonell: Yes, I do. I will come to that in a second.

If we look at our professional service firms, we see that only 19 per cent of them export abroad. I mentioned that they are some of the best firms in the world in their field, and they are. They have been so busy building Canada in the megaprojects of our own Canadian development that I suspect they have not been as interested in export sales as they are today. This is changing. Through the Ontario International Corp., we are doing much better, but we still have a long way to go, and it provides a great opportunity for the province.

On the question of the export orientation of 600 foreign subsidiaries, 50 per cent of the manufacturing output of Ontario is controlled by firms that are subsidiaries of other firms around the world. Therefore, in the sample of 600 foreign subsidiaries, we found that only 120 had global product mandates or could sell one product anywhere in the world; 55 had a North American mandate; 50 had no mandate, but once in a while could export; and 375, or 62 per cent, could not export at all because of agreements with their parent companies.

Mr. Mackenzie: That surfaced in the plant shutdown committee a number of years ago. Has that picture changed?

Mr. MacDonell: We are in the process of changing it but not as fast as we would like. This study is about a year and a half old. It is improving. To survive, most American-controlled firms are beginning to restructure and orient themselves to the larger market.

If you are going to sell in the world, you have to have a position in these top 10. There they are in US billions of dollars, with the United States again dominating the world in imports. This is causing great consternation in Washington. Canada is seventh and Ontario is 11th in the world.

11:10 a.m.

The fastest growth markets are quite a different thing--Iraq, Indonesia, Malaysia, India, Singapore, Turkey, Egypt, the People's Republic of China, Thailand and Saudi Arabia. It is interesting that they are a mixture of Middle East countries and the rest are the Pacific Rim with India.

The interesting thing is that the countries shown here are not shown there. That is because world trade is changing as the emphasis turns to the much higher economic activity of these countries, particularly those in the Pacific Rim. The old order is changing and that is bringing enormous pressure on the established exporters of the world.

Mr. Mackenzie: Can you go to the other slide for a moment? The gap is still from \$50 billion to \$20 billion in the newly emerging order.

Mr. MacDonell: That is correct.

Let us pass on to Ontario's export markets. Where do we sell? Ninety per cent of our output goes to the United States. Australia has about 0.5 per cent, Japan 0.8 per cent, the developing world 4.3 per cent and Europe only 4.6 per cent.

You already know automobiles are enormous in that, especially in the year 1984, so let us take out automobiles. With automobiles left out, we still have 82 per cent of our output going to the United States. For Australia it is nearly one per cent, Japan is 1.5 per cent, the developing world is 6.6 per cent and Europe climbs to nine per cent.

I might add that last year in the top 20 markets of the world, Ontario gained share marginally in about 17. Canada's share as a world exporter has declined as a per cent of world trade from 1970. This increase is largely due to Ontario's automobile industry in the tremendous spurt from 1982 to 1983 to 1984. I will show you more of it broken down.

Ontario's share of world exports declined from 1970 to its low at 1980, but then turned up. We have done an analysis of what accounted for that turnup; it is primarily accounted for by automobiles. If we took out automobiles, we would find that Ontario's market share in fully manufactured, nonautomobile products would lie flat or have a slight decline.

Here we have Canada's share of world manufactured exports from 1970 to 1983, again heavily affected upwards at this period of the curve because of Ontario's automobile trade.

Last is Ontario's share of world manufactured exports, including autos. I am providing an analysis to show you later on what would happen if we took out automobiles. The trend will look approximately like that. This has been a phenomenon of the last two or three years, as I mentioned earlier.

What are the consequences for Ontario? To emphasize the importance of trade, if we had held our share of world trade in 1983, we would have had \$9 billion more in export sales and 170,000 jobs in Ontario.

Let us look at our trade goals. Ontario's trade goals were set in 1982 for 1987, to increase our share of world trade to 1.7 per cent, our total exports to \$60 billion from \$36.8 billion and our total manufacturing exports, where the value is added and it is so important for employment, to \$40 billion.

The next question you are going to ask is: "What are the sources of that growth? Why do you feel you can go for that kind of target?" Our source is high-technology products, which in the first four months of this year are doing exceptionally well, especially aircraft; a much bigger share of capital projects abroad, such as a dam in Bangladesh; development of our core markets in the United States and the European Community--we now have eight offices in the US and we have beefed up our efforts in the EC; focusing on the growth regions of the Middle East and in the Pacific Rim--fortunately we are beginning to gain share slightly in the Middle East and in the first four months of this year got most of our growth in the Pacific area; and, lastly but very important, encouraging more firms to export.

The trade division has specific targets broken down by country. Here I have shown major groupings. We are looking for 75 per cent of our growth in the United States, five per cent in Asia, one per cent in Africa, four per cent in Latin America, six per cent in the Middle East, Europe eight per cent and Australia and New Zealand two per cent. Each member and each office of the trade division has its own targets and is pursuing them.

If you look at our export performance against our objectives when we started in 1981 at \$34 billion, the first year we missed the target slightly, then exceeded it slightly and in 1984 we had a record \$55.2 billion. If we can sustain this, it looks as if the \$60-billion target was set too low.

Mr. Ferraro: George, you may want to comment that inflation and competition also affects the amount.

Mr. MacDonell: Yes. These are in current dollars. As you see, we have a 9.9 per cent projected growth. Of that, approximately four per cent so far is inflation, which means we expect world trade to grow at about five per cent. However, as I mentioned earlier, world trade has surprised us and is running at about seven per cent better than last year with preliminary numbers.

The benefit for Ontario when we achieve that target is 200,000 additional jobs. The gross provincial product will be up by one per cent. We will increase provincial revenues by \$1.5 billion and we will reduce the trade deficit, which I showed you earlier.



I will go through the ministry's role quickly. The Ontario government has set in place the Ontario Development Corp., the trade division, the industry division, the technology centres and the Innovation Development for Employment Advancement Corp. The federal government has its famous trade commissioners' service, its Export Development Corp. and its program for export market development called PEMD. They are supported by the banks and the private associations, such as the Canadian Manufacturers' Association. In the centre is that all-important Ontario exporter.

Our role is to encourage companies to export and to assist entry into new markets--for example, when a businessman gets off a plane in Tokyo, he not only does not speak Japanese, but he cannot read the street signs--to boost the competitive strength of Ontario industry through the overall policies of the government towards the private sector; to create a positive environment so firms can grow; and, above all, to attract export-oriented investment to Ontario. A good example is the recent Messerschmitt-Bölkow-Blohm helicopter company, which has promised to export more than 70 per cent of its total output when it is under way here in Ontario.

Our promotional tools are very simple. We have an export consulting group which helps companies get into the confusing world of exporting, from documentation to pricing. We have the export success fund, which is a great success and now has over 1,000 clients. We have trade missions and fairs. We have our foreign offices and we have the Ontario International Corp., which also has as part of one its main divisions the Ontario Educational Services Corp., which was amalgamated with OIC last year. Those are the major infrastructures and promotional tools we use.

11:20 a.m.

Our offices are placed around the world as follows: eight in the United States, four in Europe, one in Hong Kong, one in Tokyo, one under way in Malaysia, in Singapore, and, as you know, the Premier (Mr. Peterson) announced last Friday night the government would go ahead with its trade and technology office in Jiangsu province, in the capital Nanjing. That will give us two additional offices, one in Singapore and one in Nanjing.

If you look at our missions and fairs and add these up, you will see we have one and a half of these activities every week of the year around the world. In other words, we would have eight missions to South America, 34 to the United States, 21 to western Europe and 14 to the Pacific Rim.

Our targets are 200 new exporters each year--last year we achieved 205; 200 firms assisted into the new markets--we are ahead on that target; 20 new consulting firms selling engineering expertise abroad; 20 new global product mandates--we are slightly under on that target; and 30 new export-oriented foreign investments, and we are well ahead on that target.

I have quickly shown you our performance in Japan where we are selling against the rest of the world in one of the most difficult markets in the world and with the second highest valued

currency in the world. For those who say Ontario cannot sell in Japan, the facts show that for the first nine months we had something like about a 70 per cent increase over last year and actually gained market share in auto parts, industrial machinery, telecommunications, nickel and precious metals. The precious metals was a large shipment of gold coins minted in Ontario.

I want also to show you our continued growth of exports in the United States and in the areas where we are growing. Here again, despite its advantage over the American dollar, Ontario has the second highest currency against all other countries competing in the largest market of the world.

This is the Ontario export performance on a monthly basis. This is a report given to the minister each month showing how we did for each of the months. It is obvious here that in 1985 and the latter part of 1984 we began to break off our targeted \$60 billion here.

That is the end of the presentation.

Mr. Chairman: Thank you very much.

Mr. MacDonell, frankly, I had expected more interruption during it because there is a lot of information that we have received there. Would you be more comfortable sitting where you could turn the slides on again during questions?

Mr. MacDonell: Yes. I am quite happy here. If you would like to turn down the lights, we can go back to any slide that the committee members would like to discuss.

Mr. Mackenzie: Are copies of these slides available that we can look at?

Mr. MacDonell: Yes, they are.

Mr. Mackenzie: Will they be provided to the committee, do you know?

Mr. MacDonell: I think we could get them for the committee, yes. They will be delivered this afternoon.

Mr. McGuigan: I have an observation. I guess it will reveal my rural roots. You do not need any revelation about those because you all know.

I notice that among those countries which are increasing their imports, the two top ones are the oil-rich countries. They are a special case. Because of the cartel and oil prices, they have lots of money to import goods.

As soon as you go to the next group, those are all of the countries that in recent years have ceased to import food--India, China, Thailand and one or two others. While this is causing us some problems in our agricultural and food industries, I think it proves the point that any nation cannot go any place until it gets

its own food supply well in hand. Once that happens, I think we can look to those countries that now have their food in hand for just an absolute explosion of imports. Do you have any comments on that?

Mr. MacDonell: Yes, it is quite true. The countries you have identified, as the charts show, have done wonders to improve their own food supply. Many of them are still not self-sufficient, but they have used new technology and they have followed that strategy to become far more dependent on their own food supply than they were in the past.

I am not an expert on to what extent each of those countries has developed, but I do know there has been a general improvement in their abilities to feed themselves.

Mr. McGuigan: India and China are pretty well considered to be self-sufficient. In fact, for this coming year India does not have storage space for some of its food because it has so much of it and is looking to export.

Mr. MacDonell: With a combination of Chinese population control and much expanded output per peasant or per worker, it has substantially slowed up its grain purchases from Canada.

Mr. McGuigan: I would think those would be the countries we would look to for--

Mr. MacDonell: Would you like to look at those countries again? I will quickly identify those countries again. Just take us back to slide one, please.

Mr. McGuigan: The top two were oil exporters, but below that were--

Mr. MacDonell: We can get at that picture here. These countries, particularly in India and on the Chinese mainland, have made great strides in improving their own food supply. As I mentioned, these countries are becoming major exporters. I said seven of them, called the Tiger NICs, newly industrialized countries, now account for some 50 per cent of the total trade deficit in the United States.

The capitalistic activity here--low wages, first-class technology, very entrepreneurial spirit and the tremendous drive to improve their standard of living--is literally changing the face of the world.

Mr. Knight: If I might make an observation because of your presentation, Mr. MacDonell, I have a scary feeling about the discussions we are going to be having within this committee as far as the manufacturing sector is concerned. Ontario is the biggest manufacturing base within Canada, and your indication is that Ontario's future as far as manufacturing is concerned is in the exporting of goods; I see that as a realistic objective with the number of firms that are not exporting at present.

Given the concern within the United States about the



importing of goods and looking at the large number of foreign-owned American firms in Ontario, particularly those within the manufacturing industry, and given that with freer trade there is a breaking down of the things we have had in the past to allow for the growth of the manufacturing industry within Ontario, I have a scary feeling that our manufacturing industry would be in very serious jeopardy with free trade with the United States.

I wonder what that kind of scenario would do as far as Ontario's future efforts to promote the manufacturing industry within Ontario are concerned.

11:30 a.m.

Mr. MacDonell: I am very optimistic about Ontario's industrial base. I believe selective policy issues--selective policy initiatives can be focused at those sectors particularly where we need to provide some support and guidance--will improve our productivity and output per hour. I would not be surprised to be recalled later to talk about our competitiveness, and I will be prepared to do that. Today, I am just going to show you an outline of the trading issue. Your question is very well taken. I am certain the committee will get into the question of competitiveness which, of course, underlies any trade performance.

Mr. Knight: If Mr. MacDonell would be prepared to do it at some time, it is important to us to discuss the competitiveness of Ontario with the change in trade arrangements.

Mr. MacDonell: I would be glad to reappear at your call to discuss the overall competitiveness situation as we see it from the level of the firm upwards.

Mr. Chairman: I am wondering if you are prepared to comment on the extent to which we can be involved in these expanding markets if we become locked into an arrangement with the United States. Is that something you would prefer to deal with later?

Mr. MacDonell: The ministry is in the middle of a study at the moment, the results of which will be available to the minister in approximately six weeks. I would be much more comfortable if I could get the benefit of those facts on the effect of free trade. I will comment on it to some extent because I realize you want to come to grips with this issue as quickly as you can.

I want to show you something that deals directly with the problem. In the Tokyo round of negotiations on the General Agreement on Tariffs and Trade several years ago, Ontario and Canada made an agreement with the United States for progressive reduction of tariffs from very high tariffs of 15 and 20 per cent down to very low tariffs. That form of tariff reduction or freer trade has been in place for about six years.

Each year, the American tariffs go down by about two per cent, or a factor of two, and Ontario's go down by about a factor of one. By 1987, when the progressive tariff reductions will be

completed by agreement, 80 per cent of what we sell to the United States today will go into the United States tariff-free and 70 per cent of what they sell to Ontario will come into Ontario tariff-free. We are now in 1985, so those agreements run out in two years, but there will be two more years of tariff reduction.

You could conclude that we are beginning to feel the effects here in our worsening trade balance, particularly in these high-technology and medium-technology areas, that this might be linked to the reduction in tariffs of the Toyko round that has been going on for the past five years. The two periods do coincide. Further study will have to be made to see if we can establish these links. We have talked to some experts around the world, and we are now looking to see if we can demonstrate to you that this is what has happened. The question is an important one.

As to what has happened already, we try to explain to our clients sometimes, "If you want to get your grandmother exposed to the cold, be careful you do not leave her out too long the first time because she might freeze to death."

Mr. Cordiano: Looking at the question of trading patterns and where we trade, one might ask the question about what structural changes are required in the economy if we are going to increase our export capacity and start trading with more nations or with those nations that are increasing their trading patterns with the rest of the world. We should also ask that question and investigate what we are doing in our own economy to enhance that sort of thing.

Mr. MacDonell: I would like to answer in more detail later, but I would like to reply in generalities now by saying three absolutely essential things have to happen. First, we have to upgrade and modernize the technology base of the province. Second, we have to become more aggressive in foreign sales. We have to become far more oriented to the marketplace of the world and move many of those excellent companies into the export mode. Third, we are going to have to be a lot more co-operative, among management, labour, and government. There must be a new consensus to deal with the realities of the foreign competition I have shown you this morning.

Those three generalities are not very useful, but underneath them there will be a great deal of evidence to support that view.

Mr. Chairman: You mentioned the auto industry was not doing as well this year as last. Could you expand on that and comment on the future?

Mr. MacDonell: We have just completed a study on the future of the automobile industry, which study I did not bring with me this morning. It makes us feel employment in that sector will decline in Ontario because of several factors.

At the moment in Canada, 130,000 are employed--that is our all-time peak, with 425 firms making auto parts and the Big Three or Big Four assembly plants in Ontario and Quebec, if you include the new Renault development--and we see nothing but a decline. I

do not think we can possibly sustain such a high level of employment, particularly as the share of North American-made and designed automobiles declines and the productivity of the North American factories improves.

Mr. Mackenzie: Is one of the trends we are seeing that the United States has more or less sacrificed its domestic industry in return for Japanese investment, which will have a decided impact on what we are able to export to the United States?

Mr. MacDonell: The difficulty facing the American automobile industry is that the Japanese have an enormous price advantage, at a cost level of \$1,000 a car. With the market's appetite for smaller cars and high quality, they are a fearsome competitor.

Already the Japanese have begun to increase their share of the US market, and the quotas have just come off. The American response to that has been to insist that the Japanese companies locate there. Toyota, Nissan and Honda have invested \$3 billion in the United States.

They are also very aggressive manufacturing companies. So far, they are not unionized, except the Toyota plant, and their output per worker is very high. That is another factor. It is not only the imported cars; those big Japanese plants in the United States are under way, and Honda's plant in Marysville, Ohio, is in the process of being doubled in size.

Mr. Mackenzie: Have they not invested more than \$5 billion in the United States?

Mr. MacDonell: I would have to check that. We are sure of \$3.5 billion. I believe there are projections that go up to \$6 billion.

Mr. Mackenzie: That in itself will have some impact; their answer to save themselves has been to invite the Japanese investment.

Mr. MacDonell: That is correct.

Mr. Mackenzie: That sacrifices their own domestic interests, for all the reasons you have indicated and otherwise.

Mr. MacDonell: Perhaps the American planners or government officials think it is just as well to have their people employed in a Japanese factory, as long as they are employed, as it is to have them in an American-owned factory.

Mr. Mackenzie: However, without some kind of arrangement in Canada, that does not bode very well for the current setup we have with respect to automotive parts.

11:40 a.m.

Mr. MacDonell: That raises some questions we have about the level of employment in our own automobile industry. We have to



remember that our automobile industry is just a collection of imported production lines as far as assembly is concerned. We do not design or engineer the product here; we simply manufacture it in three or four major factories.

However, our auto parts industry is indigenous. That is one of the great growth opportunities for us, because a large number of them are Canadian-owned and operated.

Mr. Mackenzie: We are also going to have to look at some similar arrangement in Canada if we are going to be competitive.

Mr. MacDonell: We are very anxious to increase our share of automobile assembly plants, particularly. As you know, Renault has agreed to invest about \$750 million, and Honda has agreed to go into Alliston; so in the past year we have had about \$850 million in promised investment.

Mr. McFadden: I wonder if I could ask two or three questions; one is a point of information. In your figures, Iraq was shown as a major player, suddenly, on the export field in terms of percentage increase. Can that be attributed to the war effort?

Mr. MacDonell: I believe it is. I believe certain other Arab states have provided a large pool of funds; so a great quantity of war materials, such as trucks, tires and arms, from a large number of companies are pouring into Iraq to support that war effort.

Mr. McFadden: So their role is a bit of an anomaly?

Mr. MacDonell: Yes.

Mr. Mackenzie: And not a very useful one.

Mr. MacDonell: It is not very useful as far as a peaceful world is concerned.

Mr. McFadden: The second area concerns developing countries. We have a very heavy dependence on the United States. Clearly, there are markets to be developed in Europe and Japan.

I noticed on your slides, both in relation to the new rising industrial competitors and in relation to the countries that have entered the world picture in terms of market potential, that a number of developing countries are in that group. I know as well that there are serious problems in a lot of the developing countries, including Mexico and Brazil--countries shown in those slides--that have had significant credit problems.

How big of a restraint on the development of our export markets would be the domestic financial problems in these countries in terms of financing of imports?

Mr. MacDonell: We have been hurt, particularly in South America. However, we have simply persisted with our customers. We are not suffering too much, but our shipments from Ontario to the

Middle East have declined; the greatest decline has taken place in the Middle East. In the Latin American Caribbean area we are down, largely because they have not got the wherewithal to buy the goods they did in the past.

Strangely enough, our exports to Africa are up. Our exports to the Pacific Rim, as I mentioned earlier, are up. Our first four months' performance is largely borne up by increased sales to the Pacific Rim. So credit has had an effect, but we watch it very carefully. Since we are very familiar with these countries, we have not suffered badly.

Mr. McFadden: The other question I wanted to raise was with regard to the service sector. Some figures I researched over the past couple of weeks--these are from Statistics Canada--indicated we export services with a total value of \$19.2 billion, broken down into various categories. This relates to Canada in total, as I understand it. Let us get this as it relates to Ontario. I am not sure you are familiar with those figures.

Mr. MacDonell: Yes, I am.

Mr. McFadden: I had two questions with regard to that. One concerns the service sector; is it an increasingly important sector for export purposes? Two, in terms of the new General Agreement on Tariffs and Trade round, the United States had suggested we include the service sector along with commodities. What should be the Canadian and/or the Ontario position regarding that kind of initiative?

Mr. MacDonell: The growth in services in Ontario in the last 10 years has been phenomenal. The curve goes straight up. I will have to do further research on the extent to which we are exporting those services, in particular to the United States. I would be hesitant to quote, but I will guess they have gone up and that Canadians have been very aggressive in selling a whole range of services, especially to the United States. It is probably very important. I will get that information.

Mr. Morin-Strom: One of the things they emphasize is that the United States is by far our dominant trading partner. I think it is some 90 per cent of Ontario's exports. Exports to all the other countries are relatively insignificant compared to those to the United States.

The missing perspective is the position of our trade with the rest of Canada. How would you place what you may call exports of manufactured goods from Ontario to the rest of Canada in the perspective of our international trading? How big a factor would provincial trade be compared to US trade or compared to trade with other foreign countries?

Mr. MacDonell: I do not have that number in my head, but it would be very significant because, as you saw, we have the dominant manufacturing position per capita. The rest of the country is largely resource based, so it would be substantial. Our sales to the other nine provinces and the Northwest Territories would be very big. We are the manufacturing base of the country.

Mr. Morin-Strom: That leads me to suggest we should get more information on our trade with the other provinces.

Mr. MacDonell: We have that information and can provide it precisely.

Mr. Morin-Strom: One question we have to look at is, what would be the impact of losing trade with the other provinces due to a much freer trade pact with the United States, particularly to some areas of the US that are geographically closer to other areas of Canada than Ontario. That might displace a lot of Ontario's manufactured goods.

Mr. MacDonell: If that occurred, Ontario would suffer substantially, but we can quantify that exactly. We will get that information for the committee.

Mr. Leluk: I recall one of the slides showed various countries where we intend to improve our exports. Among them, I do not think I saw any of the Pacific Rim countries. What would be the reason for that? Are we pursuing countries in the Pacific Rim, such as Korea, Thailand, Malaysia and Taiwan? Are we pursuing those countries as avidly as we might? How much of a factor would geography play in that whole sector?

Mr. MacDonell: Here are the fast growth markets. If I left you with the impression we are not planning to grow there, it was because I had grouped them into sectors of the world instead of countries.

Mr. Leluk: That is not the slide I was referring to. It was another slide.

11:50 a.m.

Mr. MacDonell: I know the one you mean. If I did not leave this with you, I should have said we have specific targets. The reason for going into Singapore is that we feel we can make substantial inroads into the Malaysian market.

I have grouped all of Asia into one group, instead of showing how the countries are broken down, but there is a target for each country in Asia.

Miss Stephenson: Is that a five-per cent increase, or an increase to five per cent?

Mr. MacDonell: No. This is to give us a five-per cent increase. The makeup of the \$34 billion to \$60 billion is how we hope to get that business. Instead of being so dependent on the United States, we are saying that instead of shipping 90 per cent, we will get only 75 per cent of our growth in the United States with the other 25 per cent spread amongst these countries. We have very specific targets for each one of those countries and we have what we call desks. In South Korea, we have the South Korean desk, and we have the Japanese desk. We have specialists who are identifying both the products that are required in those countries and companies in Ontario, and bringing the two together.



Mr. Leluk: How much of a factor is politics in trade with countries such as Taiwan, when they are not recognized politically, and yet are a very fast-growing market, and they are looking for imports from a country such as Canada, for example.

Mr. MacDonald: The government of Ontario has stipulated that government officials and both elected and appointed officials must not represent the province in Taiwan, but that does not prevent any business from dealing directly with a business in Taiwan. In fact, we have a fair trade with Taiwan. But because we recognize the People's Republic of China, we do not send our elected or appointed officials into Taiwan to promote trade.

Mr. Leluk: Is it our intention to promise to pursue increased trade with that country, say, as one example?

Mr. MacDonald: Yes, it is.

Mr. Leluk: Because I notice that has not deterred the United States from continuing to deal with it, even though they recognize the mainland and not the other.

Mr. MacDonald: Yes it does, and we are suggesting that the chamber of commerce might be an ideal contact to set up an office, rather than an Ontario trade office in Taiwan.

Mr. McFadden: With regard to these figures, the problem with reading these is you have to figure out the base you are starting from to know how large five per cent would be. The thing that concerned me about those figures was that given the fact the Pacific Rim, and Asia more generally, is perhaps the biggest single market in the world, what I found interesting--and I am just curious--was why Europe would be eight per cent when its economy is sort of flat, and Latin America with its problems is four per cent, and the Middle East has a declining economy because of the drop off in oil revenue, and Asia with only five. I am just curious as to the reason for the relative positions of those growth increases. Does it relate to the base we are starting from?

Mr. MacDonald: This is taken from our five year trade plan of a year ago where we weighed credit opportunity with resources and came to a balanced approach to get the highest return on investment. For every dollar spent, we are trying to produce something like a \$20 return. This seems to give us the best mix.

The government has given the trade division considerably more funds over the last three years, and as more people have been brought on, we can open more offices and become more aggressive. We have been growing. You will see now in the slide that Asia will be counted on for much more growth, particularly since we are going ahead with the technology centre in China.

Mr. MacGuigan: If you are finished with this, I was interested in your slide that shows the countries which are growing the most--Iraq and Iran.

Mr. MacDonald: See if you can find that, will you Peter, please? Let us go back to the top 10 fastest growing countries.

I think one of the things you are getting at is what sort of a market position do we have in the top 20 countries in the world. We have shown 10 here. We have grown to approximately 12 per cent of the United States' market and we have less than half of one per cent of the other top 19 markets in the world. That is the bottom line.

If you look at these countries, we are practically a nonplayer compared to the US. In Saudi Arabia, for example, we have four-tenths of one per cent of their imports. Ontario, in fact Canada as a whole, has largely exported to the United States and western Europe. It has been slow to penetrate these countries.

Mr. McFadden: Those were slow growth markets.

Mr. MacDonald: They were. That is true.

Mr. MacGuigan: Could you identify, country by country, what it is about those countries that makes them now the fastest growing markets, so we can dig out the principles of why these markets are growing and which countries we can look to for improvements?

Mr. MacDonald: Let us take Singapore and Malaysia, which have very fast growth rates. They have been growing at something in excess of seven per cent against Ontario growing at about three per cent. There is enormous economic activity in the whole Pacific Rim area. Their needs for everything from a refrigerator to all the things we take for granted are very high and they have enormous populations. As their economic activity picks up and they earn the dollars through their exports, they are becoming enormous purchasers.

Mr. MacGuigan: That is the thing I was interested in. How are they earning their dollars?

Mr. MacDonald: Largely through trade. They have substantially increased their share of world output and their share of world trade. The economic centre, if you like to be pejorative, is shifting to the Pacific. Europe and North America, compared to these countries, are simply not growing. That is the change.

Mr. Leluk: Just on that basis, if I recall a slide that was shown, you have 14 trade missions scheduled to go to the Pacific Rim.

Mr. MacDonald: Yes.

Mr. Leluk: Why are we not pursuing that even more actively when you say the European markets and what have you are declining? Why are we not pursuing the one that is growing fastest by sending more trade missions to those areas?

Mr. MacDonald: We would be delighted to send more trade

missions. It is a problem of recruiting enough companies having enough resources. What we do with the trade plan each year is try to find the best balanced result from the resources we have and the opportunities we have abroad.

We have been dramatically stepping up, over the last three years, our efforts in the Pacific Rim. We are not very aggressive now. I showed you some figures in Japan where we now have over 300 companies doing business. We are seriously looking at the possibility of recommending an office in Osaka because we are growing very rapidly through the Tokyo outlet.

Mr. MacGuigan: In what areas are we liable to get the growth there? Are they liable to import manufactured goods from us or are they more liable to import resources from us?

Mr. MacDonell: Let us take the People's Republic of China, which has identified with us some 60 major projects. Those are primarily medium- to high-technology products, although there are some agricultural, such as chickens and so on.

The People's Republic of China, with a population of one billion people and a very low per capita income is beginning to open up. It is growing at the rate of 14 per cent per year and that is going to increase rapidly. They are hungry for Ontario's technology and that is a great opportunity. They will sell us a lot of their agricultural goods--oils and fats--which they do now, in exchange for the technology of our country and everything from telecommunications to food processing.

Mr. Cordiano: Can we determine if these countries are net importers or net exporters? What sort of economic activity is taking place?

Mr. MacDonell: I would have to look at them by country, but they are net exporters, generally speaking.

Mr. Cordiano: So they are producing revenues and their per capita income is increasing.

12 noon

Mr. MacDonell: Yes, they have excellent balance sheets.

Mr. McGuigan: Do most of those people want manufactured goods?

Mr. MacDonell: It depends by country, of course. Look at Indonesia. Indonesia is starved for all sorts of capital goods manufactured in Canada because its economy, while booming, with oil, lots of money and a rich agricultural sector, is very backward when it comes to the new technology, motors, generators for generating power and so on. It varies.

Malaysia is nearly there but more sophisticated. India is rapidly developing a market for its own manufactured goods as well as for foreign. India has something like a 17 per cent growth rate. That is a new phenomenon. India was not a big importer but



it is now hungry for our technology and for the top end of our technology in particular. It is particularly interested in our power generation knowhow. Canadians are the best in the world. If you are going to move power across a country, nobody is as good. Nobody has the technology of firms like Canadian General Electric, Westinghouse and so on.

Mr. Ferraro: In that part of the mandate of this committee is to look at the Ontario perspective of trade options essentially, and we fully realize that in many aspects we are going to be looking at national concerns and national policies that will affect Ontario, what advice would you give this committee as far as looking at it from the Ontario perspective is concerned? Do you see, down the road, Ontario strengthening its go-it-alone perspective to some degree, or do you see further co-operation with other provinces or the federal government? Basically, in what direction do you see, or would like to see, the province going?

Mr. MacDonell: I would answer that on sort of a philosophical basis. With the evidence that I have shown today, the world outside has changed rapidly. Let me give you an example.

Just a few years ago, it seems, there was a small country called South Korea. After the First World War, it was in bad shape and then we had the Korean war, which seems to me only yesterday. It was essentially a country of paddy fields. Today, it is exporting the Hyundai motor car, which is rapidly becoming the number one imported car in Canada.

Almost overnight, the world has changed so rapidly that an automobile company from a little country like South Korea can become a major threat in our market. Things are moving so quickly and public attitudes have changed so rapidly. For example, the names Bata, Sony, Coca-Cola, Mercedes-Benz, General Motors, and I can go on, are just as well known in Zimbabwe as they are on Bay Street in Toronto.

The world has become one global, enormous market. If we Canadians think we are going to participate in it, we are going to have to look at a new way of co-operating together to become more competitive. If we do not become more competitive, we shall continue to lose a share of our own market and of foreign markets and we shall not be able to maintain the high standard of living we have attained.

I would think a much more co-operative and outward-looking approach will have to be taken. That is something I hope the federal government will be addressing itself to in the future.

Miss Stephenson: In 1980, as I recall, Canada imported at a rate significantly higher on a per-capita basis than any other developed country in the world. We are still importing at a very significant rate a huge number of items that we undoubtedly could produce on our own.

Mr. MacDonell: True.

Miss Stephenson: The factors which are necessary to change that, it seems to me, are increasing freedom to trade elsewhere and increasing competitiveness.

You have promised us you are going to come back and talk about Canada's competitiveness. Part of that obviously relates to the relationships between and amongst provinces because we cannot compete if we erect our own tariff and nontariff barriers. It seems to me the Charter of Rights dealt with that, in some way anyway, but how are we to ensure that we manage to decrease that dependency upon importation, which is obviously going to have an impact on our trade partners, and at the same time improve our exportation, which is going to have an impact on our economic base?

Mr. MacDonell: Imports per capita for Ontario are second only to Saudi Arabia in the world. You are right; we are fastest of any developed nation, the most open society in the world. There is nothing close to Saudi Arabia and Ontario.

I think the answer to the second part of your question is going to be something the whole committee will be struggling with for months.

Miss Stephenson: But you are going to give us some direction.

Mr. MacDonell: We would be glad to produce some factual input, yes.

Mr. Leluk: Will you be addressing the factors which, say, influence our competitiveness in the export markets, such as geography? I think I asked you earlier about labour costs, which are fairly high compared to countries like Japan--

Mr. MacDonell: If you like, we will deal with issues of comparative wage rates, comparative output per hour, comparative productivity for the principle trading partners on a comparative basis so you can see how we rate on output per man-hour, unit labour costs and all of the factors that affect the cost base of our exports.

Mr. McFadden: Looking at these figures here, there is something moderately disturbing. I want to explore one thing you said.

With regard to our exports to the United States, a substantial part has been commodities, automobiles, automobile parts and so on. When we discussed the potential of this high growth market, we talked about India, Singapore and the People's Republic of China. You are talking about technology transfers, large hydro products which are substantially in the service sector for engineering firms and so on. I take it what you are suggesting is there will not be tremendous potential in these hydro markets for our commodities. It is going to be more in the service sector. Would that be accurate? I am just curious.

Mr. MacDonell: Yes. That is accurate because Ontario's exports of commodities have declined and, so far, for the first four months, have declined for three reasons. There is less demand for these commodities than there was before because new materials have been discovered--plastics for cars instead of steel. Other countries have discovered very large deposits of the things we discovered 25 or 50 years ago and they are prepared to sell them cheaper, and there is an overall slowdown in demand. All three things have hit the great resource-based companies of Ontario.

Mr. McFadden: I have one question. With regard to the companies that manufacture commodities--cars and processed goods--I take it their best potential market would be the United States and perhaps Europe, where we are starting on a very different competitive basis as far as manufacturing is concerned. Would that be right or not?

Mr. MacDonell: Our automobile shipments are almost 98 per cent under the auto pact into the United States. As you know, we produce the large-sized cars. Our share of the world market for auto parts is very small. For example, the United States auto parts market is about \$45 billion. We have less than one per cent of that market, but that is a great opportunity for us.

12:10 p.m.

The amazing thing is we really do not know what we can do because a small firm here in Toronto went to Japan last year and to everyone's surprise walked away with a \$6-million order for rice cookers to a major department store.

We are selling electronics in Japan and we are selling telecommunications in Japan. I have not found us selling television sets in Japan, but you can rest assured there are certain kinds of television sets. In other words, there are niches. When we do the proper identification of the market, it is astounding what Ontario can do.

Miss Stephenson: It seems to me there should not be any given restriction upon our capacity to sell manufactured goods in any one of these markets. There are some attitudinal concerns I have been made aware of as a result of direct contact which are impediments to our freer access to some of those markets, particularly in the Middle East and some of the Pacific Rim countries.

They are much more concerned about security of supply of manufactured goods. When they want something, they want it to be delivered at the time they said it is going to be delivered and not delayed because of some kind of obstruction within our transportation system as a result of a work stoppage or a strike in the manufacturing industry. They are very much concerned about that kind of impediment, which they see as a barrier to enhancing their exchange of trade for manufactured goods, for example, particularly with Canada.



Mr. Cordiano: Perhaps when looking at this whole question of trade, we are looking at exports and how we can increase it. If we look at the question of trade in a total equation, we should look at the other side of that equation and where we are importing from, just to give us a contextual understanding of the whole question of trade, and with whom we are trading on the other side of the equation, to lead into this whole question of attitudinal problems, nontariff barriers, understanding that in the full context of the trading pattern.

Mr. MacDonell: That is a very important question. What is not understood by American policymakers is that Canada is by far its largest trading partner. If you compare our exports and imports from the United States to those of Japan, we are nearly double. Yet the President of the United States says his principal trading partner is Japan. The Japanese are a peanut compared to us as trading partners.

Ontario is the largest single purchaser of American goods in the world. We are their largest customer. We estimate we directly employ 1.2 million Americans. Yet the Americans seem unaware that damaging Canada's attitude towards the United States by these nontariff barriers could have very significant impacts on their already depressed employment levels.

Mr. Cordiano: I think it is very important to make that clear.

Mr. MacDonell: I would like to add one other statistic to that. We import 75 per cent of those high-technology products from the United States. What is not understood very well is that the United States is extremely vulnerable to us, because with its very high dollar, it cannot sell those goods in other countries. So we have some big cards to play. We would be glad to provide you with some of the dimensions of the US-Canada trade. You have to be very careful not to injure your principal customer because he can shift his purchases to other parts of the world.

Mr. Cordiano: I think it is absolutely crucial for us to make that a clear item when negotiating with the United States.

Mr. MacDonell: That is the reason for this analysis, to see what negotiating position we would have. We would have a very powerful position, but we do not seem to use it. We are not playing that card at the moment. We appear, at least in the press and from what I can read, to be very dependent upon American goodwill over nontariff barriers. I think it might be wise to point out more frequently just how big we are.

When our former minister went to the United States to speak to the legislature of one of the major states, they were astounded to find out that he was their principal customer. When he was finished with them, they were delighted to find out how many jobs Ontario Hydro alone counted for in the state of Pennsylvania. They were staggered. Those are the human attitudinal problems one has to deal with.

Mr. Ferraro: When they found out, when they were made aware of the fact, was that not responsible for Canada being exempted from the tariffs on steel production?

Mr. MacDonell: We ship steel to the United States and it fabricates it into refrigerators and ships it back, but it adds its labour to it. When we pointed out to them, "You are in the process of shooting yourself in the foot," I think that helped.

Mr. Cordiano: We should also begin to understand that sort of trading relationship with other countries. We should investigate our pattern with the rest of the world as we look at other options, because I think that kind of thing is going to be revealed in that sort of study. I am sure you may have further figures on that.

Mr. MacDonell: As you saw from the numbers, we are a very important purchaser of high-value-added, high-technology products from many countries, from the United States as well as Japan.

Miss Stephenson: Do you have any statistical information about the impact of the two most recent GATT negotiations in terms of employment and our share of world trade? The figures you showed us related, for example, to the 1977-78 GATT, which resulted in the 1979 agreement, which I think was a dreadful situation, particularly for Ontario, because the nontariff barriers were not attacked at all. We agreed to this tariff reduction, which I think has been potentially disastrous in a number of areas in this country. We should have that for the previous round as well.

Mr. MacDonell: We do not have the linkage. No one has ever really asked that question, but I think it is a very important question. We will go back now through our trade research and try to establish what has happened. There has been no information we know of at Statistics Canada to try to deal with this, but I think we can look at the drop and then try to follow the surge of imports six months later.

Miss Stephenson: I think that is an understandable situation because Statistics Canada looks at what happens in terms of the total trading pattern within Canada. Most of this has resulted in increased grain, increased wood or increased something else going out, but it has had a disastrous effect in Quebec and Ontario, particularly in manufacturing areas.

Mr. MacDonell: I think you would be very interested in a book written by Professor Peter Morici, who is the research director of the Canadian-American Committee in Washington. He has been doing some work for the government of Ontario on this subject. It is small, but it is a different kind of book on world trade and it answers many of the questions that are being asked here.

Miss Stephenson: What is it called?

Mr. Chairman: If it is small, it is good for politicians.

Mr. MacDonell: It is quite small with lots of pictures in it.

Mr. Chairman: We should break for lunch. We set aside the whole day for your department. I know you indicated you might need more time before you talk about competitiveness. Is there some other area you could bring to our attention this afternoon?

Mr. MacDonell: If it is agreeable to you, I would like to go home and do my homework and reappear at the call of the chair on a later date.

Mr. Chairman: Is it the wish of the committee that we reassemble this afternoon for more questioning of the deputy minister on this area?

12:10 p.m.

Mr. McGuigan: There is one area I would like to explore. With its high dollar, I do not see how the United States can continue to be such a huge importer without risking a collapse of its economy. I believe they are in their present situation because they do not really have a national strategy, as opposed to Europe and Japan which have had well-defined national strategies. The United States, because it has been the leader, has said: "We do not have to worry about it. We do not need a national strategy." They appear to be developing one to meet the present situation which would appear will be very tough on us. I wonder if we could explore that a bit.

Mr. MacDonell: In that case, if you would like me to return after lunch, I can only tell you what I have observed in dealing with American officials and from information we have been able to pick up. I would be glad to share that if it suits the committee.

Mr. Chairman: Is it the wish of the committee to come back after lunch and continue this questioning?

Agreed.

Miss Stephenson: Maybe we could continue with the other part of the discussion we terminated this morning, relating to the activities of the committee.

Mr. Chairman: Certainly. We will return at two o'clock. Thank you.

The committee recessed at 12:21 p.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

TUESDAY, JULY 23, 1985

Afternoon sitting



SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)  
VICE-CHAIRMAN: McGuigan, J. F. (Kent-Elgin L)  
Bennett, C. F. (Ottawa South PC)  
Cordiano, J. (Downsview L)  
Ferraro, R. E. (Wellington South L)  
Knight, D. S. (Halton-Burlington L)  
Mackenzie, R. W. (Hamilton East NDP)  
McFadden, D. J. (Eglinton PC)  
Morin-Strom, K. (Sault Ste. Marie NDP)  
Stephenson, B. M. (York Mills PC)  
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Leluk, N. G. (York West PC) for Mr. Bennett

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

From the Ministry of Industry, Trade and Technology:

MacDonell, G. S., Deputy Minister

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, July 23, 1985

The committee resumed at 2:05 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: This afternoon we will continue with the discussion we had this morning with Mr. MacDonell. I asked whether he would prefer to sit at the table or stand, in case we wanted to look at any of the slides again. He indicated he is quite comfortable standing, so he is moving back to that position.

Before lunch, he was talking about the situation with the United States and some of the concerns he had about the care being given to Ontario products when industries, states or the government of the United States were considering imports from Canada.

I wonder whether we could start at that point and whether you could elucidate what you were planning to say.

Mr. MacDonell: It is very important that we emphasize the importance of Ontario as a customer of the United States. Our relationship with the US is very good and last year our sales to the US increased by 28 per cent. It is our biggest customer. I would like to suggest strongly that our government's policy should be aimed at increasing the awareness of the key decision makers in the political process of the United States, and perhaps some of the principal industrialists who manufacture goods for sale in Canada should be made more aware than they have been in the past that Canada is a very important customer.

2:10 p.m.

Canada has a history of fair trade with the United States, but all too often it is caught up in sanctions against other countries, such as happened to us with cement. The target of the United States was some other country, but we were dragged in. In that dispute the United States finally exempted us. The same thing happened with steel. Rather than being punitive or difficult with the United States, we should explain the situation to them or be more successful lobbyists that we have been.

Mr. Cordiano: To make a further point on that, there is a perception that we are in a situation where our dependence on the United States is a one-way street. Expanding on what we said earlier, we also have to ensure that the perception of our own people is that we do have fair trade with the United States, and it is a reciprocal thing. We both benefit from that trade. It is give and take.

Mr. MacDonell: I agree. At the conclusion of the hearings, we should examine very carefully to what extent we might



step up parliamentary visits to the state legislatures and a whole series of communication programs.

Miss Stephenson: Do you think if we had that kind of communication with state legislatures or the federal Congress or others that would solve the wine industry problem?

Mr. MacDonell: I found that the legislators are very human. If you had visited them, I am sure you would have influenced them to some extent.

Miss Stephenson: Not as much as their constituents did.

Mr. MacDonell: That is a very good point. Let us say the president of a large American company learned there was a possibility of having difficulty shipping his product into Ontario, he would probably phone his congressman and politely raise the question of whether that was a very good plan since he had X thousand people involved in the plant producing the product. If you do it on both levels, you might be able to influence the California legislature.

Miss Stephenson: It is a manpower-requiring task, it seems to me.

Mr. McGuigan: You put your finger on where we get into trouble. The wine from the United States is largely from California. There is a bit from New York. Yet, we export whiskey in very large amounts, far more than we import wine. I am guessing, but looking at the population of the United States, where there are more people in the east than the west, you cannot make those offsets work because you are dealing with one part of the country versus another part--

Miss Stephenson: That is not entirely true. Some of the largest shareholders in some of the California vineyards are Canadian whiskey producers.

Mr. McGuigan: That just makes the problem a little worse.

Miss Stephenson: It surely does.

Mr. McFadden: One of the points that troubles me is the overwhelming dependence of Canada on the United States for its export market. From the slides you showed us, obviously, the ministry is trying to reduce that dependence. Would that be accurate?

Mr. MacDonell: I would rather put it that we are trying to grow in other areas as fast as we are in the United States.

Mr. McFadden: Given the fact we are trying to do this, how realistic do you feel it would be for us to try to make a significant inroad in that circumstance? Do you believe it would be possible for us, given aggressive selling and more market information to manufacturers and service exporters and so on, for the percentage of our export market from Ontario to drop noticeably? Are we basically only going to make some marginal

increases? What is your preliminary information based on work you have done to date?

Mr. MacDonell: It is a complex question. We do not know. With the new funds in place and new effort and the new awareness of the manufacturing sector, we do not know how far we can go. We would have to say we have never been aggressive nor made the investment. Because of our market size and our history, our whole background of supplying the rest of the world after the war, we have not been aggressive traders.

That is not true of all companies. There are companies in Ontario with fewer than 50 employees that export 98 per cent of their production. Yet, some of them do not want to sell at all outside of Ontario and do not. So it is very hard to generalize. But when we become aggressive and make the proper analysis of the foreign market, then come back and identify the companies in Ontario and move them over the bridge to the foreign country, even I am amazed at what happens.

Unfortunately, we have not moved enough companies. The way we are set up now, particularly in the United States, we are gaining ground. We gained market share in the United States, which I think is the critical measurement. As I said earlier, we gained marginally in each of 17 of the 20 principal markets of the world.

How high is up I am not sure, but, if you consider roughly \$50,000 or \$60,000 of export sales per job, we could dramatically affect our position as far as employment is concerned. By 1990 we expect world trade to be \$3 trillion. As you know, there are 12 zeros in a trillion, and one tenth of one per cent would take up our production for six months. It is an enormous market if we could make even marginal gains in it.

Mr. Leluk: Have we looked at the needs in some of these markets and do our manufacturers meet some of those needs? When I have been in the Pacific Rim area, it would seem to me that farm implements and transportation vehicles, such as buses and so on, have come to my attention. Do we meet those needs? Do we have people who manufacture and are interested in exporting those kinds of things?

Mr. MacDonell: Massey-Ferguson has recently sold some farm equipment in China. All of our large companies recently have sold. Some of our farm equipment has been sold in Japan on a selective basis. We have just recently sold some de Havilland aircraft into China. There is a pretty wide acceptance of our products.

You are raising the whole question of what we could be if we were as aggressive as other nations. I am not sure what we can be but the decisions to go to Singapore and Nanjing and to beef up our Tokyo offices are all decisions made in the direction of seeing what we can do. Since those offices are all on a profit-and-loss basis or a return-on-investment basis, it looks like an excellent investment in the future. How much we could gain, I am not sure. Could we pick up another one per cent of world trade? What if we picked up even one tenth of one per cent by aggressive behaviour?

If you look at the Japanese in Canada, and counted their consulates and trade offices, you might find 12 to 15 trade offices in a country that has a market size that is just a fraction of theirs. Ontario has an office in Japan and the federal government has an office in Japan. If you look at the amount of effort we place in foreign countries, in some of these Pacific Rim areas in particular, you will see that we are very small in comparison to other countries, and yet we are very highly received. We have excellent products.

2:20 p.m.

Sometimes our prices are too high but not always. It also is important to pick the niche and to be consistent. One of the things we have found out is you cannot do business in Asia unless you are continually there. The Asians do business with people they know and trust. You cannot go to Asia, make a deal and walk away. There is a saying that you go to Asia and make friends and you might do some business. In the rest of the world you do business and you might make some friends. In the Asian countries it is very important to be known to have a sound government backing you and to have government presence in those trade missions as well. The governments of those countries have enormous influence on what is purchased and who can purchase, so intergovernment contact is very important.

Mr. McGuigan: One of the anomalies we face is in the case of hog production. We have been very aggressive and very successful in that case both in the United States and Japan.

One of the reasons we have been successful is that we have taken a lot of small producers, which is what we have in Canada--some of the producers think they are very big but in relation to some of the American producers they are very small--and through the marketing board and the "socialist" aspects of a marketing board, we have been able to put out a better quality product than anybody else in the world.

Now that we have been successful, the Americans are focusing on that industry and are saying, "You are using government money as a subsidy." I think they have taken out four areas as subsidies and are putting forth countervailing duties on those subsidies. That brings me back to the question I asked before noon. How long can the United States continue to be such a large importer without its own economy breaking down?

What are we going to face from them in the future if hog production is an example? They are going to cut us off in many areas. Lumber is starting to be one of the areas they are looking at and saying, "You do not charge high enough fees to the lumber companies when you give them the timber rights." What do we face from the United States?

Mr. MacDonell: I am not sure where this will lead but, particularly in the northeastern states, the congressmen are under a great deal of pressure from their constituents about their loss of jobs to aggressive exporters of everything from hogs to automobiles. With the rising, or rather not lowering, American



dollar, which makes such an advantage, even if there is a tariff, if you have \$1 at 74 cents or even lower, as some countries have, the United States is in a rather serious bind. The political leaders are responding to very heavy pressures to do something about it.

The US federal government says that protectionism is wrong for the United States and is opposed to these moves. You have to know more than I do about the give and take between Congress, the Senate and the administration to know how that will balance out. I know the administration and people like Ambassador Brock, who was the chief trade ambassador for President Reagan, were very much opposed to protectionism. It was his thinking that brought about the elimination of the American-Japanese auto quotas.

You have a country with very different viewpoints. I am not sure where the balance of power will weigh out.

Mr. McGuigan: I guess we will find out in the next election over there.

Mr. McFadden: Following up on Mr. McGuigan's point, do you have any estimates of the effect of the declining value of our dollar on our export growth in the United States? For example, if the dollar were to go back to its more historical level of 80 cents or more, what effect would that have on our exports? Have you developed any figures on that?

Mr. MacDonell: No, we have not. We do not know the answer to that. We simply make guesses. We think the 74-cent dollar has been a great help to us. We can say we are not suffering a great deal of price disadvantage in the United States. That has had a big effect on our exports of automobiles and other products. The dollar has undoubtedly had an effect but how much of an effect I do not know, nor have we any way yet of knowing what would happen if the dollar rose to, say, 80 cents.

We could try to simulate it as an economic model in the computer at the University of Toronto to see what might happen, but I think you would not want to put too much faith in the results because we just do not know enough about that yet. We could certainly try it. I think the university would be very pleased to make those assumptions and see what could be done.

Mr. McFadden: At a certain point, rapidly appreciating our currency on our part could create a problem if the Americans suddenly made a decision to reduce their dollar to help their exporters. That is another reason they probably would not want it because of the deficit, but they made that a matter of policy. We suddenly took a jump and that had an effect, I would assume, on some exporters at least, and presumably would also have an impact on our imports.

Mr. MacDonell: The other foreign currencies are so far below us that we might gain some advantage if their currencies came up as well, but it is so complicated we really do not know what is liable to happen. For example, despite the fact that the

French franc has devalued against the Canadian dollar, our sales in France are up. It is so much of a human exercise and is so much dependent on our people in Paris to find the slots and to get the right manufacturer into those areas. Cable systems is something they have come up with that has been a big business.

It is very hard to predict. It would be lovely if you could say, "If the dollar fell to this, exports would..." but it does not work that way.

Mr. McGuigan: In the overall look at the United States, as long as it has the defence buildup it has, and it certainly appears it is not going to turn around on that, it is going to have high interest rates in order to attract capital from all over the world, which almost guarantees that our dollar is going to be worth a lot less than the US dollar. As long as that situation prevails, we have some hope the present advantage will continue. Not that I agree with the Star Wars proposition, but they are not going to change it because I do not agree. They seem to be really firm on that one.

Mr. Chairman: Do we get a fair shake from defence contracts?

Mr. MacDonell: We would have to get more information from the Deputy Minister of Supply and Services in Ottawa, but in my talks with him we probably would do better if we were more aggressive. Again, we must identify the opportunity and make sure we have the appropriate Ontario firm to go down there.

I get my recent information from the new person we have hired in Philadelphia, an ex-American military officer who is now specializing on defence contracts with the US. In talking with him last week, he feels there is a great opportunity to improve our position. But I think it is our problem. I do not think the Americans are showing any reluctance to live up to their agreements under defence sharing.

Mr. Leluk: Several times today you have mentioned the benefits if we were more aggressive. Could you tell us why we have not been more aggressive, what some of those reasons might be, and how we perhaps intend to get more aggressive?

Mr. MacDonell: This is a drastic oversimplification, but I think after the Second World War, as businessmen--I spent almost all of my life as a businessman--we found the Canadian market, at the rate it was growing, was adequate and we did not become great exporters, although we did in certain sectors such as nickel, iron ore and so on in the commodity areas.

2:30 p.m.

We became complacent. We found the growth of our own market, the rapid buildup of Canada to its present size, took up the production capacity we had. While we looked to other countries for sales and often got those sales, we never had the kind of urgency other countries have shown. That is part of our history and part of the geography and sort of good luck we have had ever since the Second World War.

The other thing is we did not have the aggressive competitors out there, and so we could often sit back and take orders rather than pursue it aggressively.

Mr. Leluk: How much would that have been as a result of a lack of government inspiration to companies to pursue outside markets outside of the United States and the United Kingdom, for example? I mean to encourage manufacturers to go, say, to the Pacific Rim or to go to some of these far away markets.

Mr. MacDonell: There is a good deal of debate about that. As you know, that debate has been raging for the last two or three years, ever since the recent change of the trade commissioners to the Department of External Affairs.

Some people would argue we have not been alert enough to this subject. Other people would say we have done quite well. I think really Canada has done very well and I think the results show that on balance we have become very successful, particularly Ontario. As I pointed out earlier, it has become the highest per capita exporter in the world. I think the question is more how do we stay where we are in view of the rise of these new countries.

Mr. Leluk: The reason I ask this question, Mr. MacDonell, is that it was only during the period of the Clark government in Ottawa that a committee was established to look at the Pacific Rim countries as possible markets.

Mr. MacDonell: That is true.

Mr. Leluk: That is not too long ago. I am asking what the previous government was doing in terms of looking at some of these distant markets for export.

Mr. MacDonell: I would have to get back on that. I was not in the government at the time and I am not sure, but I could find that.

Mr. Leluk: That is the reason I asked the question as to what governments were doing to encourage our manufacturers.

Mr. MacDonell: It is a surprising thing. When I was in the private sector, I was almost totally unaware of any government effort at all. When I found out how aggressive Ontario's trade division is, I was surprised I had not taken advantage of it myself. Many, I do not know how many, companies are simply not aware yet that there is so much help and guidance available. That is part of the promotional program I think is so important for the next few years.

Mr. Chairman: Something is being done about that now?

Mr. MacDonell: Yes. As you know, we are targeting. The government established the export success fund, which is the first fund of its type. As I mentioned earlier, it has about 1,000 clients. Twenty per cent of all of its clients are brand new exporters, and they are now reaching into almost every market of the world.



The export success fund is a system whereby the government matches 50 cents on the dollar up to a maximum amount for an approved export marketing plan to penetrate a new market or to begin exporting for the first time. It has been a really great success and it fits in a niche where no federal program exists at all. The government has increased the funding for that next year. I think it is to \$6 million from an initial start of about \$2 million or \$3 million.

Mr. Ferraro: The maximum is \$35,000, is it not?

Mr. MacDonell: That is correct. The maximum that any one company can have for any one project in any one year is \$35,000.

Mr. McGuigan: That money would not be used to subsidize the product. I assume it would be more for development.

Mr. MacDonell: That is right. An exporter has to do four things. The first is appropriate research on the market. If he is going to sell in Malaysia or Singapore, he simply has to know something about that market. We provide on a 50-cent dollar basis funds up to, say, \$7,000 for that research study. Second, he has to go to that market. He has to meet lawyers, government officials, distributors and customers. He has to spend time learning whether he can sell in that market. There I think we offer something like up to another \$7,000.

The next problem he has is he may find they are anxious about his product, but they want a whistle on the electric kettle because that is culturally acceptable to them. He has to come home and redesign the kettle. I think we offer up to \$25,000 for that. When that step is finished, he knows there is a market, knows where to sell, has all the approvals, has redesigned his product and now needs some funds to start up, to buy licences, to set up a warranty, to translate his product literature into Chinese and so on. Those are called the startup costs.

A company can choose any one of those a year, up to \$35,000 worth of support, but only when the bills from those expenses come in. They sign a contract with the Queen and when they fulfil the contract the government pays its portion of the expense. If the company is eligible for federal funding, that program is not available to them. I think the deadline is 16 days. I am told the federal programs are much longer.

Mr. McGuigan: There are a number of programs to guarantee that you are paid.

Mr. MacDonell: At the Ontario Development Corp., we have a system of loaning companies funds to cover their export receivables. That is not only very helpful but is also profitable for the province. At the federal level the Canadian International Development Agency will guarantee against the nonpayment of an export receivable on an insurance basis. There are a variety of programs to help Canadian exporters.

The danger is that you have to be careful to remain within the General Agreement on Tariffs and Trade. You have to be careful not to violate GATT agreements by the support programs.

Mr. Chairman: How long could a company continue to do that?

Mr. MacDonell: The manufacturer could continue as long as he was going to do something the province wanted. If we wanted him to penetrate Saudi Arabia, we would not encourage him overly much to do it, but providing he had completed a series of successful market penetrations, we might be prepared to go the fifth and sixth time if, when we measured his results, we could see significant sales improvement. However, we really want to use this to help people get started. We do not want them to become hooked on it.

Mr. Chairman: Is China a different ball of wax in that regard? You mentioned today that the longevity of the relationship is much more important, particularly there. Is that correct?

Mr. MacDonell: Yes. We started to work in China two years ago. I went to China and began to talk to Chinese officials about the possibility of twinning two provinces, Jiangsu and Ontario. That met with favour by the cabinet. Negotiations and discussions continued. We began to send trade missions. Then we got involved with the government of Jiangsu province, with the Minister of International Trade and Technology.

Through that friendship, we invited approximately six missions to Ontario. They went through our factories and were astounded by what they saw. That led to the suggestion on our part that we set up a technology centre in Jiangsu to act as a window on Ontario technology. They would build the building, fund it and hire the staff, and we would put in the president and one or two key people.

That so excited them that they have signed an agreement with the government of Ontario. We hope next year the Premier (Mr. Peterson) will sign an agreement with the Premier of Jiangsu on twinning as well. Both premiers have initialled the first protocol.

2:40 p.m.

There is a progression. Ten firms have just come back from China, and I heard glowing reports of their reception. The Chinese themselves selected the firms after visiting their plants in Ontario in April or May.

So you penetrate that market by gaining the goodwill of senior Chinese officials, both what we would call bureaucrats and elected. We have a very friendly contact with the Premier of Jiangsu and we are hoping some key ministers will be visiting this fall.

Mr. Morin-Strom: I would like to ask what kind of information and data research you have done on a sector-by-sector basis of the position of Ontario industries competitively and with respect to imbalance of imports versus exports, particularly with the United States.

Mr. MacDonell: We have made a study of Ontario's industrial base, in which the province was divided into 88 sectors. We have looked at each with regard to profits, sales, growth of profits and sales, export sales, importation, and we used a formula to predict export performance. We have an enormous amount of data in the computer. We have rated them into four principal sectors, A, B, C and D. I can tell you D is the one about which we are most concerned. At the moment there are some 29 sectors in that group. So the answer is yes, we have that data.

Mr. Morin-Strom: Is it possible for the committee to get briefed on that, perhaps the next time you are in front of us?

Mr. MacDonell: Absolutely. This is all public information.

Miss Stephenson: Does this enable us to assess Ontario's competitiveness?

Mr. MacDonell: Yes. The reason for doing it was to try to see on a very massive scale which sectors were performing better than others. I want to assure you we have some very healthy and growing powerful sectors. We have some very successful ones as far as exports are concerned.

Mr. Morin-Strom: Is it part of our focus here to determine what the balance is going to be between those sectors that may gain from a freer trade relationship versus those that would lose and, in particular, what the consequences would be on those that stand to lose?

Mr. Chairman: We certainly have a mandate to look at sectors that way if we wish.

Mr. MacDonell: The information will be made available.

Mr. McFadden: Could I ask one question on this? I know Mr. MacDonell mentioned competitiveness and so on two or three times. I am wondering if we should not have the benefit of this particular study in the near future. We have danced around it and know all the sectors. The obvious follow-up is to find out what all these companies are and everything else. Rather than exploring that today and going into what is coming up, I am wondering if we could get some sort of agreement to hear it relatively soon so that as a group we can have the benefit of all the information the ministry has put together, because I know it is very considerable and thorough.

Mr. Chairman: That makes sense.

Mr. MacDonell: Yes, we would be glad to. If you can give us a little time, we are polishing it up at the moment. It is very important and we are trying to get it into a slide presentation about 30 minutes long so you do not have to go through thousands of pages of economic jargon, which I find pretty hard to read and I am sure you will too. You just want to know what is the bottom line.



Mr. Chairman: That is right.

Mr. Ferraro: Especially at the ministry level, are you talking about six to eight weeks or something like that?

Mr. MacDonell: Yes. In that time we can have a very good picture of our 1984 results back to probably 1970.

Mr. Ferraro: I know Mr. McFadden would like it sooner, but it is just a matter of compiling.

Mr. MacDonell: We are waiting for certain information that comes in on a staggered basis, some 1982 and 1983 statistics on output. We have gone through a blip in productivity and, to be fair, we have to show any improvement that was made.

Mr. Chairman: You will be on top of that, Mr. Ferraro, so perhaps you can let us know as soon as it seems we are having to call it back.

Mr. Ferraro: I will be glad to, Mr. Chairman.

Mr. Morin-Strom: Mr. MacDonell, you mentioned you wanted to get down to a bottom line. In terms of a general presentation, I could see you wanting to focus on a summary; but from my point of view, I would like to see some of the detail behind it. Sector-by-sector information might be of use, particularly when we come up to facing presentations from specific industries, so we have some information that is more specific than just the overview.

Mr. MacDonell: We will be available to do whatever you decide to do. We could invite one or two members, or those who are interested, to sit down with the experts in this field and go through their presentation with them. Some of it is committed to slides; so you can look at a large amount of data. All of it is in printout form. There is a massive amount of data, but we will be delighted to let you read it, if that is agreeable with the chairman.

Mr. Chairman: Some members may want to do that. I know some of the specific sectors are already champing at the bit to talk to us, and probably we will be hearing from them in August, which sounds as if it will be prior to your having your presentation ready. It might be worth while if Mr. Morin-Strom, for instance, could find out some things about the specific sectors and we could perhaps be ready to do some questioning.

Miss Stephenson: It is always very comforting to feel that you have some kind of basic information before you begin to hear the reports of various sectoral industries. In this case, I am not sure it is absolutely essential we have that since a good deal of the information that has been used within your study has been developed by the sectoral industries in the first place.

What we may get is verification through the Ministry of Industry, Trade and Technology study of what we hear from the various industrial groups that come in to talk to us. I am not sure we should be postponing their presentations to hear what the

ministry has developed as a result of its intensive study. Perhaps we should proceed.

Mr. Chairman: I am not suggesting that we are postponing; I am just suggesting that if some members wish to find out what the ministry has now, they can come armed with it when we hear from the sectors.

Any other questions?

Mr. Ferraro: I have a general question. If you were all-powerful, George--

Miss Stephenson: What do you mean by "if?"

Mr. Ferraro: Let me rephrase that. If you were slightly more powerful than you are, George, and you could wave a wand and all of a sudden the Ontario economy were to flourish, what would you do now that you are not doing, or what would you not do that you are doing?

You can plead the fifth amendment, George.

Mr. MacDonell: Mr. Ferraro, I would like to develop my answer to that in the time I have with the support of my minister before I speak on that subject to make sure we have a common understanding of what that might be.

Mr. Ferraro: Maybe I will ask you the same question about 10 months from now, George.

Mr. MacDonell: All of us will be ready at least to put forth our views on this.

Mr. Ferraro: We want some answers and solutions.

Mr. MacDonell: Yes, I sense that, Mr. Ferraro. This select committee should be congratulated on how fast it wants to get to the bottom line on this subject.

2:50 p.m.

Mr. McGuigan: That question sort of leads to another philosophical matter. We hear politicians and economists talking about having an industrial strategy. I cannot quote the people, but I have read a number of articles by economists saying you cannot have a particular strategy because the market moves so quickly and is a better regulator of those things than any strategy you might come up with. I tend to agree with that, but I wonder what comments you have about an industrial strategy.

Mr. MacDonell: I entered the government three years ago as a private sector businessman, convinced that was not a very good idea. After studying all the data available, I now have some big doubts about my first assumptions. I have also learned that, even when you say you do not have a strategy, you have one because then your strategy is not to govern, not to have a strategy. I can give you instances of a decision being made not to govern or not to have a strategy when that was the strategy.

On the subject of picking winners and losers, it seems to me that is largely a known question. As you have said, most governments realize you cannot do that. However, in the case of one government I know of that I have been following closely, it let the private sector decide which technologies were going to be successful by looking at how much of its money it had already invested in those technologies. The government's policy was to support, through repayable loans, the companies that seemed to be ahead of the rest of the world, to speed up and to lever up the performance of those companies to the benefit of the country.

There are various approaches. There is a raging debate in the United States about whether it would be better off if it had a coherent industrial policy. Debate is raging in Canada too about what our industrial strategy should be, faced with the changing circumstances of the world. The committee will probably be very interested in the view of somebody who has spent a lot more time on it. It seems to have been very successful in other countries; Austria, for example. In talking with the Swiss, they seem to have a fairly clear industrial policy or strategy, whatever you call it.

Mr. McGuigan: Unless they produce cheaper than anybody else. This is the market, is it not?

Mr. MacDonell: If the strategy or policy is simply to make the most out of what you have, that is a fairly sound approach, provided you are not interfering in the dynamics of the marketplace.

Mr. Cordiano: If one looks at Japan, as many people have done over the past five to 10 years, and at the way the Japanese approach their economy, it is clear they move out of sectors of their economy very rapidly. In the time in which an industry goes along the growth curve or the learning curve and comes down, they will make a decision to move out of an industry entirely. Maybe you could elaborate on that.

Mr. MacDonell: I had an opportunity to talk to Japan's principal bureaucrat who was head of strategic planning for the Japanese government. First of all, Japanese companies and the government are not quite as cohesive as some people think. They may be much closer than we are, but the Japanese government is not absolute. For example, Honda, against government wishes, entered the automobile business. You know the result. The government was wrong. They are not as cohesive as you might think.

He explained the Japanese strategy to me by saying their economy is like a five-storey apartment building or department store. When the bottom floor begins to get flooded and the Koreans start to move into the television business, they just move up a floor. The way they do that is to pick the winning technologies, the ones that Japanese businessmen have invested in heavily themselves first, and then to encourage those firms by making loans the banks would not make. There are various others ways of doing it, and it is not quite as simple as that, but they try to lever up what the business community has decided will be a winner, and with great success.



Mr. Taylor: What is on the fifth floor? Is that their space program?

Mr. MacDonell: The fifth floor is Japanese culture, the essence of Japan.

Interjections.

Mr. Ferraro: Our fifth floor is hockey players.

Interjections.

Mr. Chairman: I want to thank you very much for coming and giving us the information which gives us a good base to begin our deliberations and for musing with us to some extent this afternoon. We will look forward to your return when we can get into some of the areas of competition and so forth. You were our first witness. We have got off to a good start by hearing from you.

As I mentioned earlier to the committee, we will have a looseleaf folder that will include a fair amount of information. It will be available this afternoon. It would be easier to distribute it tomorrow morning, or it could be taken to your offices later this afternoon.

Tomorrow we will be hearing from the Treasury. They will be giving us a presentation.

On Thursday morning we will have Professor Ron Wonnacott of the University of Western Ontario. His position will be in favour of free trade or freer trade or whatever you wish to call it. In the afternoon we will have the Ministry of Northern Affairs.

For Monday of next week, we have lined up the Ministry of Natural Resources. We are hoping to hear from the Ministry of Agriculture, but we have not lined that up yet. Also next week, we will be hearing from general interest groups and other academics who have particular positions to expound on.

Mr. Ferraro: Could I put a question to my fellow committee members? Is it necessary to have a two-hour break? Could we have it between 12 noon and 1 p.m., or is that not appropriate?

Mr. Chairman: What would you prefer?

Mr. Ferraro: My preference would be to start at 1 p.m., but whatever the committee thinks--

Mr. Chairman: Start at 1 p.m. and be through earlier in the afternoon? Is that a general feeling of the group? I do not think there is any problem with that. All right.

Mr. Mackenzie: Some of us might have some difficulty with that. We have at least one luncheon meeting for next week which makes it a little difficult if we are changing the hours at this stage of the game.

Mr. Taylor: Maybe it would depend on the person making

the presentation. Some may need an extra half hour and some finish early. We should be flexible about it.

Mr. Chairman: It is hard for us to judge how long the presentations are going to last. I do not think there is any problem having a shorter lunch hour tomorrow. Which day is it that it is difficult for you?

Mr. Mackenzie: I am waiting for a call back now.

3 p.m.

Mr. Chairman: Why do we not try it tomorrow?

Mr. Cordiano: Perhaps we could leave it flexible and determine that each day.

Mr. Chairman: We have to accommodate our witnesses to some extent.

Mr. Cordiano: That is what I mean. You want to be flexible enough to accommodate them. If someone takes an extra half hour or hour, it becomes difficult.

Mr. McGuigan: There are only a few hours in the day when you can contact people at various ministries. There is also one's own legislative assistant. If you come back to your office at 4:30 or 5 p.m., you are dead for the rest of the day as far as doing any business with government people is concerned. All of us have to deal with ministries in our constituency work and so on.

Mr. Ferraro: Are you saying it is better to deal with them between 1 p.m. and 2 p.m.?

Mr. McGuigan: Yes.

Mr. Ferraro: Your people must take different lunch hours from the ones I want to get hold of.

Mr. McGuigan: There is some chance they might be there. There is no chance after 4:30 p.m.

Mr. McFadden: May I suggest a compromise? We went about one hour and 50 minutes today. Perhaps we could get it down. We adjourned at 12:20 p.m. and started at 2:10 p.m. I am wondering whether we could take 90 minutes to allow time for eating and making phone calls.

Mr. Ferraro: The consummate politician.

Mr. Chairman: Shall we try that? A compromise sounds good. Will it be 1:30 p.m. tomorrow?

Miss Stephenson: I am forced to be absent from the committee next week as well. I need to know the days you are going to sit so I can tell my substitute.

Mr. Chairman: We are sitting Monday to Thursday

inclusive. I neglected to mention this morning that the subcommittee feels we could try on for size not sitting on Fridays, but sitting Monday mornings at 10 and having four full days.

Mr. Ferraro: Are we going to meet four days a week from now on or just next week?

Mr. Chairman: We were going to try to meet four days from here on.

Miss Stephenson: For 14 weeks?

Mr. Chairman: We were persuaded this morning to take two weeks off in August.

Miss Stephenson: Twelve weeks.

Mr. Mackenzie: That is what I was trying to find out: exactly what, if anything, we had decided. Is the decision to take the two weeks in August? We have to do some rescheduling.

Mr. Chairman: My understanding was that the committee felt we should take two weeks starting August 5 and rethink the position of when our travelling is going to happen.

Mr. Mackenzie: That makes some sense.

Mr. McFadden: I want to raise one thing. We can meet it later when we deal with other witnesses. I notice the list of presentations next week virtually entirely involves representatives, excluding the academics--the people in the diplomatic service are academics--of such groups as the Canadian Manufacturers' Association, the Consumers' Association of Canada, the Ontario Federation of Labour and the Ontario Federation of Agriculture, which are all related to commodities.

Unless that is not a complete list, there is no reference to any group involved in the service sector or in engineering and consulting. We have just heard that the opportunities are tremendous in that area, particularly in Asia. To give our initial runthrough more depth, I wonder whether there is any way we might find a representative from the Engineering Institute of Canada or someone familiar with the potential in the service sector. It would give balance to the information we will be getting next week.

Miss Stephenson: We might contact Cansult, which is a Canadian consulting consortium that has done a great deal of consulting work in the Far East and the Middle East.

Mr. Ferraro: Our own Ontario International Corp. in the Ministry of Industry and Trade is the umbrella organization for getting jobs around the world for consultants and engineers.

Miss Stephenson: The OIC itself, and in particular its Ontario Educational Services Corp. division, would be very helpful as well in a number of areas. However, if you want to get a group that has been out there and doing it, Cansult is one of the consortia that has been.



Mr. Chairman: We will follow up on that.

Mr. Morin-Strom: On the issue of services, which are obviously becoming a bigger element of the whole economy, we are going to get diverted if we focus on consulting or engineering work in the Far East. That is a very small part of the total economy. The big issue is services between the United States and Canada. Industries such as banking, computer software and things like that are more significant than focusing on the Far East.

Mr. Taylor: We can get Mary from the Royal Bank.

Mr. McFadden: That would be a representative group to start us focusing on the resources sector, obviously, banking and the media.

Mr. Chairman: Would banking be a better area? Obviously the Royal Bank of Canada has something to say. Do you agree?

Mr. McFadden: Yes. With respect to the United States, certainly.

Mr. Chairman: In any event, we will find a representative service association. That is a good point.

The committee adjourned at 3:07 p.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, JULY 24, 1985

Morning sitting





SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)  
VICE-CHAIRMAN: McGuigan, J. F. (Kent-Elgin L)  
Bennett, C. F. (Ottawa South PC)  
Cordiano, J. (Downsview L)  
Ferraro, R. E. (Wellington South L)  
Knight, D. S. (Halton-Burlington L)  
Mackenzie, R. W. (Hamilton East NDP)  
McFadden, D. J. (Eglinton PC)  
Morin-Strom, K. (Sault Ste. Marie NDP)  
Stephenson, B. M. (York Mills PC)  
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Leluk, N. G. (York West PC) for Mr. Bennett

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

From the Ministry of Treasury and Economics:

Purchase, Dr. B. P., Assistant Deputy Minister and Chief Economist,  
Office of Economic Policy

Trick, D., Executive Assistant to Assistant Deputy Minister,  
Office of Economic Policy

Welwood, D., Senior Policy Adviser, Service Sector and Trade

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, July 24, 1985

The committee met at 10:09 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: I call the meeting to order. Perhaps we could get started. I understand the air conditioning here is going to be improved shortly.

I would like to tell the story of the kindergarten student at school for the first time. After the first day of school, he comes home and the mother asks, "How was school today?" The little boy says; "I did not do so well." The mother asks, "Why did you not do so well?" The little boy says, "I have to go back tomorrow." I guess we are in about the same position; we did not learn everything yesterday and we are back here today to learn a little more.

Before we get started, Mr. Traficante would like to go through the binder you had yesterday. I know most of us did not bring our copies with us, but probably it would be of some assistance if he could do just a short walk-through and then you can read it at your leisure.

Mr. McFadden: Mr. Chairman, could we do that at two o'clock? We could all go to our offices and bring them back here, rather than doing it now.

Mr. Chairman: All right. That is a good point. I should point out that will be at 1:30 and not two o'clock.

Mr. McFadden: Oh. I am sorry.

Mr. Chairman: We have with us today, as the agenda indicates, from the Ministry of Treasury and Economics, Dr. Bryne Purchase, Assistant Deputy Minister and Chief Economist. Assisting him, over on the slide machine, is David Trick. To Dr. Purchase's left is Doug Welwood, and to his right, Dr. Ron Saunders.

Dr. Purchase: What we have prepared for you is literally an overview of the kinds of things I think are relevant to this committee's deliberations. It contains no policy content. It is just strictly the kinds of issues we think are relevant when addressing the total issue in front of you of Canada-US free trade, which is essentially what this is about, although I suppose it is also about the broader context of trade relations in general.

What you are going to see is what we think are the key issues that the various witnesses appearing before you will really be presenting. This is in a sense the first start, to give you an overview. It really does not necessarily give you an in-depth

analysis of each thing but it may trigger some further questions in your mind that you would want us to answer or you would want other witnesses to answer.

The first part of the overview really is some introductory facts. I understand Mr. MacDonell did a little bit of that yesterday. I will move fairly quickly on that. If you want to slow me down with some questions, please feel free to do so. I think there are some key things that are important here to keep in mind in addressing the other issues, which may or may not be more substantive in some sense, in the later slides.

You will also notice that in the second and third sections I talk about secure access and greater access. I think that is an important distinction, one that is often not made. You will see, when you read various materials on this subject, people talk about secure and enhanced access. I think they are separable things. You can have secure access without having greater access. Incidentally greater access is really free trade; in other words, some further reduction of barriers between the United States and Canada.

You should try to understand the distinction between security of access and greater access. You can have one without the other. It is quite possible to have secure access without greater access, and it is quite possible to have greater access without secure access.

I hope that will become a little more clear to you as we move into the presentation. Having read this material for perhaps the past three or four months, I have come to believe that is an important distinction which should be kept in mind. Often people will make a case for one thing or another and confuse the two issues.

We will also tell you a little bit about the US Congress and how you go about negotiating and implementing a bilateral agreement. Then we will talk about the arguments that are now out against greater access, as well as the arguments for greater access, and we will talk about whether or not it is possible to secure the existing access. That is a lot of access to be talking about but let us turn to the first slide.

The point we want to make here is simple. This slide shows our exports of goods and services as a percentage of our national income. You will notice that it has increased from 1970 to 1984, that we have become more dependent on export trade. The bottom slide shows Ontario slightly more dependent than Canada on international exports. This includes both goods exports and service exports.

Mr. Cordiano: Do you have the comparative figures for imports as a percentage of gross provincial product?

Dr. Purchase: Yes, we do and we will be showing those equivalent figures, unless you want us to skip ahead in the presentation.

Mr. Cordiano: No, that is fine. I just wondered if it



would include that.

Dr. Purchase: If we could turn to the next slide, you will see a lot of slides with this particular structure. What we have tried to do is combine some history as well as give you an idea of the composition of Canada's exports.

You will notice about 40 per cent of Canada's exports are manufactured end products, such as automobiles and consumer products of various sorts. Fabricated materials comprise something like 32 per cent of our exports. These are wood pulp, lumber, organic and inorganic chemicals, fuel oil, etc. Crude materials are metals, ores, concentrate, scrap and oil seeds, for example.

Mr. Morin-Strom: You are not talking about all our exports. You have this qualifier, merchandise exports.

Dr. Purchase: This does not include service exports.

Mr. Morin-Strom: What portion of our total exports is in this category?

Dr. Purchase: I will have to turn to my assistants. This will predominate. As I recall, we have a slide later which shows the share of our service exports. Roughly 90 per cent of our exports are commodities.

Mr. Welwood: Services are about 15 per cent.

Dr. Purchase: Yes, 85 per cent are commodities.

The next slide will give you an idea of the composition of Ontario's merchandise exports. These are goods again. You will notice we have a higher proportion of manufactured end products. Roughly 48 per cent of that 66.9 are automobiles and parts. Thus, about 48 percentage points of our total exports were automobiles and parts in 1984.

Ontario has a higher proportion of exports of manufactured end products and fabricated materials than Canada as a whole. It is much lower in the other two categories. This has increased somewhat.

The next slide deals with the distribution of Canada's merchandise exports by destination. Here you see the overwhelming predominance of the United States, which has grown. There has been a decline in exports to Europe. Very little headway has been made with Japan or other Asian countries. The other category is the Organization of Petroleum Exporting Countries nations. In 1980 there was a higher proportion, but since the decline in international oil prices that has been a less significant export market for Canada.

Mr. Ferraro: The slide of exports to the United States shows 75.6 per cent. We were told yesterday by Mr. MacDonell that 90 per cent of our exports go to the United States. Is that because you are qualifying these as merchandise exports?

10:20 a.m.

Dr. Purchase: No. Canada's exports are on the next slide.

Compared to Canada, Ontario is much more heavily involved in the United States market. A greater proportion, 90 per cent, of our exports go to the United States. You will notice the declining importance of western Europe, the very marginal importance of Japan, and the declining importance of the other category, dominated by OPEC countries. The United States is a major part of our export market, and it has increased, although you do have to be careful about these because some of the numbers will bounce around over time. You have to remember that the current economic recovery has the United States growing much more rapidly than the rest of the world, in particular western Europe. So some of the orientation of our export trade reflects the current business cycle, with the US economy growing more rapidly than western Europe. It does show that we have not made much impact on Japan over those years.

If we could turn now to composition of our imports, you will notice--we will just do it with Ontario--we are more likely to import manufactured end products than we are to import any other classification of commodity. This has not really significantly changed over time.

Mr. Mackenzie: Would there be any product that would dominate with respect to the imports just as the 48 per cent in terms of automotive parts and autos dominates in terms of our exports? There is still the same kind of a shift back and forth.

Dr. Purchase: I think autos would still represent a significant share of that import figure.

Miss Stephenson: About 75 per cent or how much?

Dr. Purchase: We may have to take that question under advisement and get back to you on it. This afternoon we can find out that composition. I would be surprised if autos were not important there. I should mention that the other thing that will be extremely important in import trade is machinery and equipment.

Mr. Mackenzie: That is really what I am getting at. How does it break down? We have long argued about our reliance on machinery imported for mining, for example.

Dr. Purchase: In terms of where our imports come from you can see again the predominance of the United States relative to other countries and very little change in that over time. The United States is not only our largest export market, but that is also where we buy most of the products that we import.

This slide shows the importance of trade in services. What we have tried to do here is show how the US has a much higher stake in service trade. Service exports represent a larger percentage of their bilateral merchandise exports than Canada, which is to say that the United States earns a much larger proportion of its income from trade with Canada in services than

we do with the United States.

The numbers on the bottom chart show you the absolute amounts in 1984 in billions of Canadian dollars. The US earned \$15.6 billion from service exports to Canada, and Canada earned \$9.3 billion from service exports to the United States. That excludes interest and dividend payments which are quite huge in the American case. Here we are looking only at services that I would call tradeable services, business services such as accounting, engineering services, advertising, insurance transactions, etc.

Mr. Morin-Strom: Are these trade items only between Canada and the US or is that total exports from those countries?

Dr. Purchase: This is just Canada-US bilateral trade. It is not the importance of services to the total US trade pattern. It is the importance of services to Canada-US trade, but you will find that the Americans have a similar interest with respect to all countries. In any trade agreement that we are going to be talking about or that they will talk about to anyone, services will be very high on their list to have various nontariff barriers removed.

Mr. Morin-Strom: Are we going to get data on the amount of interest and dividends flowing between the two countries?

Dr. Purchase: It is separate. We do not have it in this presentation, but we can give it to you. Of course it will show that interest and dividend payments to the United States are huge relative to the return flow from the US.

Mr. Mackenzie: We are not really going to get a true picture without that, are we?

Dr. Purchase: It depends what picture you are looking for. I tend to distinguish between the export of capital and the return service payment on that capital. With the discussion about trade in service industries, for example, engineering services, accounting services, legal services, advertising services, the whole range of business services that you might talk about, I thought it was important to highlight that for you because they are extremely important to the US and they are subject to nontariff barriers in Canada, the US and Europe. Interest and dividend payments are not, except on occasion where you may have an interest equalization tax or some other form of tax imposed on the flows of payments for the use of capital.

Mr. Morin-Strom: Do they not reflect the amount of cross-ownership between the two countries of industries in each other? As well, do they not place a limit or have an impact on the amount of cash available within each country to purchase goods and services? In other words, are large payments of interest and dividends to the US a depletion of potential cash purchasing power in Canada?

Dr. Purchase: Yes, in one sense that is true. On the other hand, they are payments for having borrowed a huge amount of



cash in the first place. The money flows in in the form of capital inflow and then you service that debt over time where there is an interest and dividend payment for that. You are right. I mean to the extent that the debt has to be serviced and is foreign debt, it does drain spending power from the country in question.

Let us look at the composition of Canada's service exports. The reason we use Canada, incidentally, is that we cannot get Ontario numbers that look at interest and dividend payments between provinces. There is a problem because there are no balance-of-payments numbers for Ontario in the sense of Ontario vis-à-vis all other jurisdictions. We have some restrictions here, but we use Canada, which is representative in many ways of Ontario, certainly in business areas, as we would be more predominant than the rest of Canada.

The kinds of service exports we are talking about here are travel, freight and shipping, and business services which I have already defined. There is another category that includes various forms of government transactions. The important ones are travel, freight and shipping, and the whole host of business services.

Miss Stephenson: Including government transactions and other services of that sort?

Mr. Welwood: One of the other services that is included is all services associated with international banking and insurance operations.

Mr. McFadden: Can I ask a question on travel? Does travel include not just means of transportation, but hotels and everything else associated with travel? Exactly what is encompassed under the term "travel?"

Mr. Welwood: I believe it does include those others; it is a tourism account, in effect.

10:30 a.m.

Mr. McFadden: For example, how would you treat Canada's Wonderland or, say, attendance at Blue Jay games and things of that nature? Would that come under travel or does that show up somewhere else? I assume that would all more or less be factored in as best you could. Is that correct?

Dr. Purchase: Yes. These numbers come from Statistics Canada. They collect data or information on Americans or foreigners coming to Canada and they have some estimate of the average expenditure they might make. It is quite crude because there is virtually no way of being able to pinpoint how much someone from Germany spent at Canada's Wonderland.

Mr. McFadden: Or Ontario Place.

Dr. Purchase: Yes.

Mr. Chairman: Am I to understand you cannot really estimate Ontario's balance of payments?

Dr. Purchase: The problems with respect to that are manifold. One thing is that goods travel across borders between provinces without any check on them. There is no way of telling just how much may have been exported from a particular port or location in Ontario that, in fact, came from another province. Obviously a great many transactions take place across the country. There is no point at which anyone knows they are going on. Statistics Canada would not be able to give you that.

That makes it difficult when we try to put together some comprehensive view of Ontario's exports. We make estimates of these things ourselves, the problem being no data are collected because there is no port of entry when they come from Quebec, Manitoba or any other province.

Mr. McGuigan: When you speak of service exports, you are really talking about positive things as far as Canada's trade and travel. Would that be people who come to Canada?

Dr. Purchase: Yes. Most people think of exports as something that leaves here. In the case of travel, people come and actually spend money here. In the case of freight and shipping, goods entering international trade are carried by Canadian transportation.

Mr. McGuigan: They probably originate someplace else.

Dr. Purchase: They could, or they could originate here.

There are a host of businesses around that, such as insurance on freight and that kind of thing. All these things enter into it. There is international competition in those industries and there are almost no international rules of conduct or trade. There is no General Agreement on Tariffs and Trade covering them. The focus of GATT has been on goods.

The Americans are now really quite interested in something wholly new for us. There is talk about all these industries that have grown up in the service sector and about the kinds of trade restrictions that apply to them. In one sense, if we go into the future here, the thing to remember is it will not be like the past, the GATT Kennedy or Tokyo rounds. We are going to be talking much more now about things we have never discussed before in the service area.

Mr. McGuigan: Some people are rejecting that already.

The business services would be selling insurance or engineering services to the United States.

Dr. Purchase: Yes. Consulting is a very large proportion of that. Again, if you think about the growth of the service sector in the economy, in particular business services, you can see why there is a sudden interest in expanding the markets for a lot of firms in that area.

Miss Stephenson: This has been done, for example, by the development industry, which moves into the US and utilizes

American materials and labour but in actual fact brings its consultative services and that sort of thing. I am thinking of Olympia and York in New York City. Does it include that?

Dr. Purchase: To the extent there is a payment to the Canadian parent for those consulting services, yes, it would be captured here.

Mr. McGuigan: What would other services be?

Dr. Purchase: Included are consulting and other professional services, insurance transactions--

Miss Stephenson: Business services.

Dr. Purchase: This is business; there are management and administrative services.

Mr. McGuigan: This is under "other"?

Dr. Purchase: I am sorry; this is under "business services." I will turn to "other" in a second.

There are scientific research and product development services. There are commissions, if you earn a commission for something. Royalties, patents, trademarks and film rentals are included in this. There are advertising and sales promotion, computer services, equipment rentals, franchises and other similar rights.

Mr. McGuigan: That gives us an idea.

Dr. Purchase: Some of these things such as royalties, patents, trademarks and franchise payments are the kinds of things. We are seeing more and more the movement of what might be called "intangible capital." That is a trademark, for example, or a franchise that has a name associated with it. You buy those services as well as a whole host of other services that a typical franchise operation would involve. If an American firm has a major franchise in the US and it sells it to someone in Canada, then there are payments that flow the other way. Obviously, there is increasing interest in that flow of service trade in the world. As I say, there are really no rules governing it now.

Mr. Chairman: Where is the interest coming from?

Dr. Purchase: The US has the major interest, which is not unusual given that it probably has the most well-developed comparative advantage in many of these industries. They are the major pressure for a new international, multilateral round through GATT for some new rules on trade in services that will cover a whole host of things.

It includes all services associated with international banking and insurance operations. There is also an item called "government transactions." I must confess I do not know what that means, but we will find out and supply that information.



Mr. Chairman: You say there are lots of rules in individual countries?

Dr. Purchase: Yes, there are.

Mr. Chairman: Since the US would like to be active in those countries, it would like those rules to be negotiated.

Dr. Purchase: Yes. There is a host of regulations affecting these service industries in each country. These regulations are often regarded by foreign competitors as nontariff barriers. It is very important in the financial services industry, for example, which is increasingly an international industry where our firms, banks, insurance companies and so forth, are going abroad to sell services of various sorts.

10:40 a.m.

There is Canadian legislation about the financial services industry that restricts the amount of foreign ownership in this country. It is very hard to sell a financial service without having an establishment in the country. If you restrict establishments, that is regarded as a nontariff barrier to the service trade. We will get to more of that in later presentations.

Mr. McFadden: There are two categories under the other services. It is a very large amount for two categories.

Miss Stephenson: "Definite transactions" could encompass a huge amount of money, if we knew precisely what it meant.

Dr. Purchase: The business services component, which is insurance and so forth, predominates in that section. The others are quite minor relative to the total.

Miss Stephenson: The service associated with any international banking or insurance is the major portion.

Dr. Purchase: Yes.

Mr. McGuigan: Hydro transactions might come under that.

Dr. Purchase: Hydro is considered a fabricated material and included in our merchandise trade rather than in our service trade.

If we look at where our service exports go, you can see a much more balanced picture than the picture we showed of merchandise exports. You will notice that Europe is more important here, as well as other countries. Part of the reason for this is that in the other services category a great number of Canadian consulting services are exported to developing countries, business consultants, engineering consultants. That is an important aspect of our trade, so we have a more balanced service exports trade in terms of country of destination.

I have another point to make about service exports. I think it would make sense to you that we have a more balanced trade

there partly because transportation costs do not figure very much in service trade, so geographic proximity is not that important.

If you look at the composition of our service imports, you can see a structure not too dissimilar to our exports structure.

Mr. McFadden: I have a question with regard to the imports. What is quite noticeable is the rather rapid drop in freight and shipping and the relatively rapid rise in other services. The others are reasonably stable.

Dr. Purchase: Yes.

Mr. McFadden: Does this indicate Canadians are shipping a larger amount of our own stuff in trucks and by air? Why are imports down on freight and shipping? Do you have any idea of the reason for that?

Dr. Purchase: I would have to take a look at it because there are several possible explanations. It could be the positive one that we are doing so much better, but it could be simply that the other service categories have grown so much.

Mr. McFadden: That is the other side of the coin, the other services. What has been rising has been foreign banks and--

Dr. Purchase: Yes, we are talking about financial services in that other services category being much more important.

Mr. McGuigan: It appears our falling Canadian dollar has affected our travel, down from 29.7 to 26.

Dr. Purchase: Yes, I am sure it has had a beneficial impact.

Miss Stephenson: I would look at the next page before you say that, because the amount to the United States has increased. In terms of our dollar, our largest deficit is with the United States.

Dr. Purchase: The import pattern here would include all imports of services. The decline in the value of the dollar, I believe, would have a positive impact on service trade as well.

Miss Stephenson: So it may have increased disproportionately larger than there has been a decrease in travel, which would outweigh that.

Dr. Purchase: That is fair to say. There are several things that could be going on here. I am just trying to straighten them out in my own mind as to what would exactly explain the travel as well as the freight and shipping composition.

In terms of service imports, you will notice one of the major features is that on the import side we have a much higher dependence on the United States than we have on the export side. Part of the reason for this is the significant amount of foreign ownership in Canada where service trade typically, if you are

talking about business or consulting services, advertising service and so forth, tends to be highly linked to the country of origin of the foreign-owned firm.

If you had normal business relations with advertising or accounting firms, or if your own head office was supplying those services to the subsidiary, that would be included as well as the things I mentioned. It would also include payments for research and development, payments for patents, payments for trademarks and so forth. That is why you see the greater orientation of our service imports to the United States than to any other country; US ownership of Canadian industry predominates ownership from any other country.

On the next slide, what we want to show you is simply what the major trading blocs in the world look like in regard to the sizes of the markets. The European Community, the one on the extreme left of your table, has something like 309 million people in that market. If you add to that the European free trade area, which includes Sweden, Norway, Finland, Iceland, Switzerland and Austria, you get up to almost 348 million people.

The United States has within its common market, if you like to think of it in those terms, 226 million people. Japan has a domestic market of 118 million. Australia and New Zealand have recently formed a free trade area which has something like 17.6 million people in it. Canada has a domestic market of about 24 million.

You will hear a number of people who will talk about the need to have access to a major trading bloc, a major market, which has few barriers to trade. They will be talking about the fact that Canada has a small domestic market relative to those markets which are available without trade restrictions in other countries or in other groups of countries and that we are highly dependent on export trade.

10:50 a.m.

Mr. Ferraro: It is interesting that when you drew up your graphs you did not distinguish, as was predominant yesterday in the presentation by Mr. MacDonell, the Middle East, which is one of the most active buyers and so forth. Is there any reason you do not consider them as viable?

Dr. Purchase: It is not that I do not consider them important. We could have shown the domestic market of China in terms of the population, and it would have dwarfed all of it.

Mr. Chairman: I realize that, but I am thinking--

Dr. Purchase: The thing is there is not, to my knowledge, a free trade or a common association of those countries. Each one represents an important export market to us, which we showed earlier in the other category. The Organization of Petroleum Exporting Countries is an important market, and we are not suggesting in any way by our choice of numbers here that there should not be an attempt to access those markets. Obviously they



are important, although less so now than when there was a great deal more oil money around.

Miss Stephenson: In terms of dollars.

Mr. McGuigan: For instance, one of the reasons Saudi Arabia can buy so much is that it has a very low population in relation to the dollars coming in.

Dr. Purchase: Yes.

Mr. Chairman: Every country represented in this draft is an industrialized western capitalist country.

Dr. Purchase: Yes.

Mr. Chairman: If you can call Japan western.

Dr. Purchase: They are all members of the General Agreement on Tariffs and Trade. They are all industrialized.

Mr. Chairman: What is left out that is industrialized in the western world?

Dr. Purchase: Latin America, the eastern bloc, China and most developing countries are not included. Of course, they all represent significant blocks. If you looked at them just in terms of population, they would dwarf the potential size of markets we are looking at here. The difference is that they do not have nearly the income level of the other markets. They are not mature in the way the United States or Europe are as trading blocks.

Mr. Chairman: However, there is little left out of that chart that is not in the first world in the sense that we are.

Dr. Purchase: No. There is no major industrialized country that is omitted--with one exception, I should say. South America is left out. We are not talking about Brazil, which is clearly growing to be an important power. We are not talking about Korea or Malaysia. The newly industrializing countries--I guess I would include Argentina in that--are not in this.

I did not mean it to be a point of contention that we left somebody out. I meant simply to show that people will say Canada does not have a huge domestic market in the way other industrialized countries do, including Japan; but neither does Hong Kong.

I would like to turn to the next slide, which is the final one on numbers.

This is an estimate from the Department of External Affairs showing the amount of Canadian exports entering the United States duty-free. It is projected to the end of 1987, which will be the end of the Tokyo round adjustments; 80 per cent of our exports will enter the United States duty-free, and 65 per cent of US exports will enter Canada duty-free. We are somewhat more dependent on tariffs than is the United States.

Unfortunately, what we cannot show you, because we do not know, is the use of nontariff barriers between the two countries, simply because there is such a host of them and some difficulty in defining them, and adding them up in some meaningful way is a difficult thing; but the use of nontariff barriers is important in the United States as well as in Canada.

That is the end of the overview of the composition of our trade. It shows that export trade is important. It shows that there is a growing interest in service trade and service industries and that we have a huge dependence, if I might use that term, on the US market. It shows that automobiles are an important part of the trade and that our export orientation has been growing.

In the final analysis, trade issues are not unimportant to this country or this province. That is the point I would draw.

Mr. Morin-Strom: In relation to the last diagram, do you have information on how much is paid back and forth in tolls, duties and tariffs in terms of dollar flows in and out of Canada?

Dr. Purchase: We do not have it with us, but I am sure we could get it. I am sure it is available since it is a revenue and would be in the budget numbers for the government of Canada.

Mr. Morin-Strom: I would appreciate that.

Dr. Purchase: If I might turn now to the next slide, we are going to show you some of the arguments you will hear for what I call more secure access to the United States.

There is a great deal of concern in Canada and in the world generally about rising protectionism in the United States. That concern is generated by the fact that the United States last year had a \$123-billion trade deficit; this year it is projected to be something like \$150 billion. Canada accounted for about \$20 billion worth of that trade deficit, and Japan accounted for something like \$37 billion worth of it.

The major concern, as far as we can tell, seems to be with Japan's enormous success in the consumer goods industries, which I suppose in a sense now are the least-protected industries in the United States. It is very difficult to sell military goods--Japan does not produce them--or anything that goes to the US government, which is a huge consumer.

The Japanese strategy appears to have been to focus on consumer goods, which made sense. They are moving upscale in those goods, and they are moving into more capital goods, machinery and equipment.

It is widely held that the US trade deficit is related in part to the fact that the US dollar is overvalued by something in the neighbourhood of 25 per cent. I have seen various estimates of that. Many US export industries and US-import-competing industries are concerned and are making representations to Congress that something has to be done to improve their trade situation.

11 a.m.

Under "protectionism," we have a list of recent cases. There is the softwood lumber case, which many of you may be familiar with, where a countervail action or complaint was laid against Canadian softwood lumber and an investigation in the United States of subsidy, particularly subsidy related to stumpage fees. The finding was that the stumpage fee was a subsidy but that it was de minimis, which is to say less than 0.5 per cent, and therefore was not countervailable.

Although that was a great victory for us, it is not necessarily the end of the story since there are many things we may do differently from the United States, including the way stumpage fees are arranged in this country, which could conceivably be called a subsidy.

Mr. Ferraro: What is a stumpage fee?

Miss Stephenson: It is the fee charged to companies that cut lumber for the amount of lumber they cut.

Mr. Ferraro: A royalty.

Miss Stephenson: Yes, it is a royalty.

Mr. Ferraro: I was stumped.

Miss Stephenson: Not so early in the morning, Rick.

Dr. Purchase: It is the fee paid to the provincial government for the right to cut the lumber. In Canada, since it is crown land, the government sets those fees. In the United States, that is not the arrangement; it is private land, so it is different.

Miss Stephenson: The senator from Wisconsin says we are giving it away.

Mr. Mackenzie: Would our recent dispute over sugar and sugar products be part of this list?

Dr. Purchase: Yes. What we tried to do here is simply to illustrate the kinds of issues that have arisen and why more and more people are concerned about what I would call secure access to the US market.

These cases are not atypical. Increasingly, the Americans are talking about fair trade and looking for subsidy wherever they can find it. Later in our presentation, we will get to exactly how countervail works, but countervail is clearly one of the most important weapons the United States has in this whole trade issue. It is the most important feature of what is happening now and why there is all the concern in Canada about secure access to the US market.

I will make the point now that you could get greater access through a free trade arrangement without any change to



countervail. In other words, you may get greater access but you would not necessarily get secure access; countervail could still be used against you. It is not something the administration wants any more. Private industry can simply take a case against you and then put in motion the whole machinery of countervail. Even if you win, it takes a great deal of time and resources to fight your case.

Miss Stephenson: How many hearings are there? There are at least two.

Dr. Purchase: I am not sure. Mr. Trick, can you answer the question?

Miss Stephenson: How many hearings?

Dr. Purchase: On countervail cases.

Miss Stephenson: Two separate sets of hearings go on relating to countervail.

Mr. Trick: There are two separate parts to a countervail hearing. One is to find that you have injured the US industry, and the other is to find that there has indeed been a subsidy. You have to have hearings on both those things. The hearings go on more or less concurrently, and at the end of the process, if there has been an affirmative finding on both, the US government has the right to impose a duty equivalent to the amount of the subsidy.

Mr. McGuigan: That works the same on this side too.

Mr. Trick: We do have countervail legislation in Canada as well. There are two points I would make about it. First, it is not used as frequently against the Americans as the Americans use it against us, partly because they are less involved in many types of government economic development programs than we are. There are a number of things we do that they do not do, to put it the short way.

The second point one might make is that, because of the smaller size of the Canadian market, if an American firm is cut out of the Canadian market in any fashion because of something they think we have subsidized, they are losing a relatively small market of 24 or 25 million people, whereas a Canadian firm loses an entire 225 or 235 million people. There is not a strict balance in the effect on the firm.

Dr. Purchase: In terms of weapons they have like a hydrogen bomb and we have more conventional ones.

Mr. McGuigan: We should not be so timid about it. We are timid about it.

Miss Stephenson: We sure are.

Mr. Cordiano: The point was also made that we are the biggest market for exports for the United States, the biggest trading partner, so we should not forget that as well.

Mr. Ferraro: Is there enough--

Mr. Trick: There is but I could not tell you offhand what it is. I would have to look that up.

Mr. Taylor: The message I got was that there might be more in the system than was merited by the outcome. In other words, the process can be exhausting in many respects, financially as well as from the point of view of manpower. That might be a weapon in itself, apart from the merit of the outcome.

Dr. Purchase: Absolutely. You can be harassed continuously on these cases and it would require resources. It would require the time of senior executives; it would require the time of governments; it would require the time of lawyers. It is a very legalistic process.

Mr. Ferraro: Sounds like a Workers' Compensation Board case.

Miss Stephenson: The harassment in this case is a lot more expensive, I can tell you.

Mr. Taylor: I am thinking in terms of the respective clout or power of the adversaries. There may be a reluctance to get involved in a knock-em-down, drag-em-out type of warfare and therefore maybe the problem will be addressed internally or as between the parties as opposed to the process. Is there some of that type of thing?

Dr. Purchase: Yes. Trade cases that go to the commerce department under countervail are by no means restricted only to the legalistic process. There is also lobbying in the Congress. The commerce department, in the case of softwood lumber, did not find the subsidy to be injurious or found it to be minimal. That has not stopped the lumber industry from lobbying the Congress and the Congress from introducing legislation that would restrict the Canadian share of the US market to something like 20 per cent. We now have something on the order of 31 per cent.

In a sense, whether that legislation will ever be passed does not really matter. It still requires lobbying time on behalf of Canadian companies with US congressmen about legislation like that and how injurious it would be to the Canadian industry. In that lobbying process there is a question of who your allies are.

Mr. Taylor: It is like politics.

11:10 a.m.

Dr. Purchase: That is right. It is a very important part of the whole system down there. Of course, the Japanese have become much more expert at it and in the case of automobiles have mobilized the dealers who deal in Japanese cars, which is not an insignificant source of employment. If you think of every Japanese car dealer in the United States, or other potential allies, people might think Japan would retaliate in some way against that

industry, they can also be enlisted. It is all part of bringing to bear the maximum amount of pressure you can on Congress.

Mr. Taylor: So it is another nontariff barrier. You may want to comment on it at some stage, with respect to the evolution of expertise in regard to those, obviously within the General Agreement on Tariffs and Trade arrangements.

Miss Stephenson: It seems to me it is a whole new source of employment opportunities for Canadians we have never exploited because we have been chicken about doing anything at all vis-à-vis the United States. Every time they say "Boo," we jump. It is a little painful at times, particularly when it comes to the economy.

Mr. Taylor: I would not say that. That is tough, Bette.

Mr. McGuigan: I would say it.

Mr. Cordiano: The evidence is pretty clear.

Miss Stephenson: It is not only the United States. We do the same thing with Europe.

Mr. Ferraro: Would Japan have doubled the countervail hearings that Canada would? Can you answer that question? Or what proportion? Can Canada have more than Japan? I am thinking in proportion to the deficit the United States has with Japan, which is almost double what Canada's is.

Dr. Purchase: I am not sure about that. We might be able to find out.

Mr. Ferraro: It would be kind of interesting to figure out how good as lobbyists they are and how paranoid we are.

Dr. Purchase: The predominant feeling in Congress, of course, is anxiety about Japan because of the nature of Japanese imports into the United States, which are much more in the finished product kinds of goods. Simply, the view now is that somehow the Japanese are invincible and unstoppable. So there is a certain kind of anxiety and perhaps even an inferiority complex on the part of Americans with respect to Japan because they feel as if they have been beaten at their own game, in a sense. That certainly was my impression in the short time I spent there, that Americans were incredibly preoccupied with the Japanese success in business.

That does not mean there are not regional interests which are heavily influenced by Canadian imports into the United States. Clearly, the lumber industry is one example. These regional interests are heightened by the fact there is a great shift of economic activity in the United States to the southwest and west coast. So that varies, but particularly the midwestern and the north central United States, which are heavily industrialized, highly dependent on capital-intensive industries and world trade and highly subject to import competition, feel enormous pressure from the Japanese inroads in automobiles and a lot of other machinery and consumer products. What they also have to cope with



right now is the fact the dollar has such a high value relative to the Japanese yen and European currencies. Economic recovery has not been as strong in those parts of the country as the general recovery in the United States.

It just happens they are our neighbours in immediate geographic proximity. They are obviously very concerned about Canada. Of course, it does not mean legislation will necessarily be passed, but it does mean there is a lot of it being introduced in Congress.

Mr. McGuigan: I would just like to add a further comment. I am not an expert or anything but I have read a fair bit about it. It is my understanding Japan looks on the whole society as a family, the family of Japanese. In Japan, 17 per cent of the people are farmers, very high-cost farmers that we would knock out overnight if they would give us that agricultural market. But Japan just says: "We are protecting that 17 per cent and we do not give a damn what you think about it. They are a part of our family. We import billions of dollars worth of food but we are not going to depend totally on outside food."

We worked out just about the same thing with the European Economic Community. In North America, we compete with others in our own country and those people do not compete within their country. We also compete with the rest of the world. So you have to understand the difference in attitudes. They have been through wars, famines and all those sorts of things and they are not going to give up that concept unless we want to go to war with them. We do not have those concepts so it is hard to understand why other countries do.

Mr. Ferraro: Are you saying Canadians are soft, Jim?

Mr. McGuigan: No, we are too hard. We are hard on ourselves in relation to the Japanese. In North America we do not give a damn about the farmer, we just let him go. Reagan declared war on them and Mulroney is following suit, I guess, partly because he has no choice. But Europe and Japan say they are going to protect the farmer and anybody else. The farmers are the ones I know about. They look upon them as part of the family and we do not.

Miss Stephenson: If that attitude were to prevail in all trading blocs there could never be anything called free trade. You are saying we are barking up a tree which is an inappropriate access to something that is unattainable.

Mr. McGuigan: Unless we can change their attitude.

Miss Stephenson: Shall I stop right now?

Mr. McGuigan: No.

Miss Stephenson: All right. Another thing that worries me is that in the United States there always appears to be such a outcry about Canadian subsidies for various kinds of resources, particularly resource and agricultural industries, but there does

not appear to be the same kind of concern about the participation of public funding in Japanese manufacturing development which is of great significance. There is no way there could have been the kind of development which has taken place if there had not been huge public participation in the research and development of all their technological advances. That does not seem to be a matter of concern to the Americans in their examination of their trade with Japan. They get concerned about other things, but not that.

I cannot understand it. I guess it is their understanding of the philosophy in Japan and their lack of understanding of the philosophy of Canada.

Mr. McGuigan: To some extent they are hypocrites. In farming, the figure that is accepted most of the time is the net farm income. In Europe, about 33 or 34 per cent of every dollar the farmer has is net. It comes from the government. In the United States, it is 22 per cent and in Canada, about 12 per cent. We have the lowest one, and they are using countervail against our hogs when their subsidies to US agriculture are twice ours in total. So they are using whatever weapons they have to crush their smaller neighbour.

Mr. Taylor: Did you say they do not care about the farmer? You have to watch your argument there.

Miss Stephenson: In the United States they do not care.

Mr. Taylor: That is what I finished saying. They do not care about the farmer.

Mr. McGuigan: I should have finished that. The present law, the 1985 farm bill, that is up for debate says that by 1990 all subsidies will be eliminated. So there is a change in policy there. But at the moment they get about 22 cents for every net dollar which comes from the US government. They will phase that out by 1990.

11:20 a.m.

Mr. Taylor: In a way you will have to watch the subsidies too in the government participation terms of research and development. Look at the massive defence industry in the US, which is government-financed, and the research in connection with that.

Miss Stephenson: And the spinoffs.

Mr. Cordiano: You cannot quantify the indirect subsidies that go to industry, for example, the kind of co-ordinated effort the government has with industry in Japan. Sometimes that is not quantifiable. There are many programs they have, or direct government involvement through different agencies for export, which are not quantifiable as subsidies. That has a great--

Miss Stephenson: That is not defined as a subsidy apparently.

Mr. Cordiano: It is not defined. It is not something that would have to go into the picture when the cost factors become relevant in overseas trade.

Miss Stephenson: One of the things GATT could do would be to redefine the whole area, which would be helpful.

Mr. Cordiano: Where the subsidy is, yes.

Miss Stephenson: There is no doubt in my mind that we have lost as a result of the Tokyo round. We have not gained a heck of a lot as a result of the Tokyo round. If we are going into a new set of negotiations, there had better be some fairly positive positions put forward by Canada and some allies, I hope, to ensure we do better.

Mr. Ferraro: We wish to get some Japanese advisers.

Miss Stephenson: We have to learn to be totally inscrutable, that is all. Canadians are not good poker players.

Mr. Taylor: Rick Ferraro, parliamentary assistant to the Minister of Industry, Trade and Technology, recommends that Japanese advisers be imported to Ontario.

Mr. Ferraro: No. Japanese Canadians.

Mr. Taylor: Watch it now.

Mr. Ferraro: They would have to be Japanese Canadians.

Mr. McGuigan: We have missionaries from Africa, so there is nothing wrong with us having some consultants from Japan.

Miss Stephenson: On the track.

Mr. McFadden: Could I ask one question in relation to protections from the US? One item that is not in here with which I have some involvement is the use of appropriation acts and other ways and means bills which are put before Congress to stop American government agencies from purchasing goods from non-American suppliers.

I gather some states, and I can think of New York state as one, have similar legislation and often it is tied up with appropriations. Are you aware of any breakdown of legislated protectionism that might be available to us with regard to procurement by government agencies in the United States, both federally and at the state level?

Miss Stephenson: And at the city level.

Mr. McFadden: At the city level, too.

Dr. Purchase: Yes, I think we can supply you with a list of the more readily identifiable acts. We have done some work on them. The Surface Transportation Assistance Act is an important one for us. There are also the federal Buy American Act, the Clean



Water Act and the Public Works Employment Act. The Department of Defence also has certain restrictions on who can bid on contracts, and so forth. There is a very large list of nontariff barriers relating to government procurement which we will supply to the committee.

Mr. Knight: Perhaps we could have the same thing from our side of the fence, the Canadian scene and also Ontario. Although we do not get involved in tariff matters as such, from a nontariff perspective it would be interesting to know what Ontario has in the way of nontariff barriers.

Miss Stephenson: We do not have legislation. We have policies, but no legislation.

Dr. Purchase: I am not sure if Ontario's procurement policy is legislated.

Mr. McGuigan: It is 10 per cent.

Miss Stephenson: Yes, but that is a policy, not a piece of legislation. It is a direction that was suggested, but it is Canadian.

Mr. Knight: Whether it is legislated or whether it is a policy.

Dr. Purchase: We can supply that. When we are talking about nontariff barriers, it is fairly easy to get them in terms of government procurement, but there is a host of other pieces of legislation that has barriers in one form or another to trade in services in particular. The lists are very long, so I would hope anything we supply would not be regarded necessarily as being definitive in the sense that we have managed to identify every possible one.

Mr. Knight: An overview or a list of the more important or more obvious ones.

Dr. Purchase: Yes.

Mr. Chairman: Are you asking that lists be provided for us, Mr. Knight?

Mr. Knight: Yes.

Mr. Cordiano: I would like to go back to a point we have been discussing in the last day and a half. Mention was made of the fact that perhaps our industry is not as aggressive in pursuing export trade. Is there any connection or correlation with the fact that a majority of those companies are Canadian owned? Are there any comparative figures of the kind of export trade those companies are doing relative to, say, companies that are subsidiaries? This is going off on a tangent, I know.

Dr. Purchase: I know there is on imports. Of course, subsidiary companies import a great deal more than Canadian-owned companies. I am just going to check.

Mr. Chairman: We saw some figures yesterday.

Mr. Cordiano: They were not broken down with regard to percentage of ownership that is largely Canadian compared to those that are not.

Miss Stephenson: What he demonstrated yesterday was the relationship or the ratios of export activity among companies in Ontario that were primarily foreign owned. He did not compare that with the activity of totally Canadian companies.

Mr. Cordiano: That would be a very relevant comparison. There has to be some sort of relationship there. On the surface, Canadian companies seem to do a lot more aggressively in export trade. This is without looking at figures. It is just a feeling you get by reading journals, reading the literature. That is the kind of feeling I get anyway. I would like to see that kind of comparison.

Mr. Taylor: For your information, it is tied in with the aspect of global mandating and global mandating as related to, say, Canadian companies, subsidiaries of American companies, that type of thing, the percentages.

Miss Stephenson: It had to do with the freedom of foreign-owned companies to export.

Mr. Cordiano: Exactly. That is the point here.

Dr. Purchase: I have seen a great deal of that material and what it says, obviously, is that in some cases--this is not universally true and to some degree it has been changing as the corporate strategies change in response to a different environment--a subsidiary would be mandated, if you like, the Canadian market. That is it. They are not allowed to compete with another part of the company in another market.

Not all foreign-owned firms operate in that way, however, so it is not universally true of foreign firms. It is clearly true of some, and that was a very common technique in the early days of the development of the multinational corporation. Many of those companies are rethinking their whole strategies with respect to their subsidiaries and are going in different directions.

11:30 a.m.

One of the things you have to be careful about is that you are comparing firms in the same industry, a Canadian-owned firm and a foreign-owned firm, if you like, because obviously different industries have different export propensities. The numbers in total may tell you a misleading story. It is entirely possible, since Canadian firms would tend to predominate, I suspect, in the resource industries, and we obviously export an awful lot of resources, that you could wind up with a number that shows Canadian firms do a great deal more exporting. Then if you looked at electrical products, what you might find is that foreign firms do more exporting than Canadian firms, because foreign firms were larger and had more well-developed export possibilities and expertise.

How those numbers are presented can lead you to very different conclusions as to who is doing what and where.

Mr. Cordiano: It is very important with respect to the fact we may see more investment in this country. That is speculative. However, if that is the case, and there are certain key sectors of our economy we would like to see improve, we should see what role that plays in terms of export development. I presume the areas in which we would like to see that are high-technology industry, etc.

Dr. Purchase: We will try to dig up the material.

Mr. Mackenzie: Can you break it down in the resource sector and the manufacturing sector? That is necessary to get the picture.

Miss Stephenson: The figures we saw were manufacturing and nothing else. They had nothing to do with resources.

Mr. Chairman: We actually saw only 600 companies.

Miss Stephenson: I think it was 640.

Dr. Purchase: It is important to separate out those companies and make sure they are in the same industry so it is a fair comparison as opposed to a comparison that includes a lot of different industries, some of which may be dominated by Canadian multinational firms and others which may be dominated by foreign-owned multinationals. It is by no means an easy picture. However, we will try to do that for the committee.

Mr. Cordiano: For the purposes of this committee, we should get some sense of what it is like.

Dr. Purchase: To finish with this slide, we mention "import surcharge." There is talk in the United States of imposing an import surcharge on all imports to the US as a solution to the US budget problem. Several bills have been introduced in Congress to do that, some of which would include Canada and some of which have various phase-in procedures, depending on how much of the US trade deficit is related to a particular country. You kind of trip over a wire. If you do too well, you get hit with the import surcharge. Right now, it would clearly be Japan, but perhaps we would be next on the list depending on how well we did.

There are two major problems with the US economy in the sense that they take up so much of the public discussion: the US trade deficit and the US federal budget deficit. There are people who believe they can be linked and can be solved at the same time by an import surcharge. The people who support that idea argue it would reduce the trade deficit and the budget deficit at the same time. There are many who do not believe that is possible. The congressional staff has done an analysis that shows it would not work and could make things worse. That does not mean it would not be done.

Mr. McGuigan: They could do the same thing with fixed exchange values, could they not?



Dr. Purchase: If the US went away from a floating currency, it could unilaterally devalue its currency and fix it at some lower level. You may recall President Nixon did that in the famous Nixonomics, which included not only a devaluation of the US currency but also an import surcharge on all imports. Canada argued at the time for an exemption but it was not granted.

Mr. Ferraro: Do we have more definitive schedules or charts as far as domestic content is concerned? It now appears that Toyota is going to locate a plant here and it is building one in the US and so forth. That appears to be somewhat of a bargaining tool from politicians both locally and abroad. Do we have more definitive information?

Dr. Purchase: We can certainly tell you how much company investment there has been in the US in automobiles relative to Canada over the last few years. We can also tell you what pieces of legislation have been introduced in Congress and their primary features which call for domestic content. I think the latest one in 1982 called for 90 per cent domestic content in the US. It was never passed; it was opposed by the administration and so forth.

These things keep coming along in Congress and are obviously supported by senators and representatives from the north central part of the US. We can give you--

Mr. Ferraro: It would appear to me that this committee is going to have to deal with that more and more. We are dealing not only with tariffs, protectionism and subsidization, but also have to consider the investment to a greater degree. That is the kind of information that would be important.

Dr. Purchase: The final point on this slide is the encouragement of investment in Canada. By that I mean if someone was deciding to set up a plant in North America to service two thirds of the North American market, Canada and the United States, and was thinking about the problem of potential countervail--protection in North America between Canada and the US--and set up in Canada with 20 per cent of production services in the domestic market and 80 per cent exported, or set up in the US where the numbers are reversed, you can see that the balance of risks are not the same. Clearly there is greater risk of US protectionism than Canadian protectionism by locating the plant in Canada, all other things being equal.

Mr. Ferraro: And it may not.

Dr. Purchase: And it may not. You may feel that, on balance, the economics are wholly in favour of putting the plant in Canada and therefore taking the added risk of what may happen in Congress. You may decide the risk of protectionism in your industry is too great with respect to the 80 per cent that would be exported and so put it in the US and take the risk against only 20 per cent in some kind of Canadian retaliation.

I want to suggest that secure access is not unimportant to the location of investment and is more important in some industries than in others. It is a significant part of anything.

When investors asked themselves, "Where shall I put the plant?" they do not just ask themselves what the economics are, relative wage rates or capital costs, but also, "What are the political dimensions of reaction to this decision that I am making?"

Mr. Ferraro: But would they not ask themselves the same question if there was a free trade agreement? In other words, 10 years from now whoever is governing could say: "Wait a minute, this is not working. To hell with it, we are going to get out." A prudent corporate entity would still have to consider that fact so you do have that hypothetical aspect to contend with.

11:40 a.m.

Dr. Purchase: Yes, absolutely. The point of a free trade agreement is that it can be abrogated, as any treaty can. More important, one can have a free trade agreement that does not do anything about US countervail or any other kind of protectionist measure in the US. Therefore, you would not be addressing this uncertainty at all. Having free trade does not guarantee secure access. It guarantees greater access because some industries would no longer have tariffs, but it would not impede Congress from applying countervail against us.

Mr. Knight: It is interesting that, under secure access, putting a plant in Canada may very well lead to some tariff barriers from the US, but it has also been presented as evidence at the federal hearings going on now that as far as free trade is concerned, more than likely there are no industries that would locate facilities or invest in Canada, but rather would locate in the US. I find it interesting that both scenarios lead me to believe the secure access you talk about is probably the best alternative.

Dr. Purchase: I can probably answer that question without overstepping the concepts of what I am trying to present. If we had secure access now, that would be a great step forward. We certainly do not have it now in the sense that the US has this countervail legislation. They also have the escape clause, which we will explain later.

If you could secure access, it would be important. I would separate secure from greater access. You can secure it without necessarily getting greater access. You could negotiate some change in US countervail in principle, if they would negotiate that. I do not know that they would, but you could get some changes in existing legislation which would not require that you negotiate free trade.

Mr. Knight: Also, in the future, free trade would possibly negate investment within Canada, whereas in industries other than automotive, where we already have a pact, we try to secure our trade relationships so that in the future in other industries we will be able to encourage investment within Canada.

Miss Stephenson: Can I ask what economic arguments would be advanced to support that theory, that if there were really free trade, knowing there was free access to both markets without

barriers or hindrances, investment would more likely take place in the United States? It seems the argument is less economic than it is a whole range of other things. Is that what was being proposed as the basis for this statement?

Mr. Knight: It may very well be that it is more than economic. There is a diversity of opinion, and that is one opinion that has been presented to the federal hearing.

Miss Stephenson: I can see that argument. I am wondering what the economic arguments would be.

Mr. Knight: That is why I posed it to our chief economist.

Dr. Purchase: There is a diversity of opinion on what would happen. We get to it in a later slide. To anticipate that a little, I do not know that anyone can say with certainty which way it will go. If we think about existing multinational firms, some of them--the ones that could service the Canadian market from the United States--may be less inclined to invest in Canada. Others may not be so inclined. Others may move more to the world-product-mandate style and so forth.

In principle, if there were no barriers and no concern about potential barriers, one would think the decision would be made strictly on economic grounds. In other words, sometimes it would make sense to put the plant in Canada and sometimes it would make sense to put it in the United States.

As to how it will all net out, some economists believe if we had greater access to the United States, we would get more investment in Canada; others believe we would get less.

Mr. Ferraro: What does the chief economist for Ontario believe?

Dr. Purchase: As my colleague suggests--

Mr. Ferraro: Do not pass the buck.

Dr. Purchase: I cannot answer the question. I have not done studies myself. You would get a different pattern across industries. In some industries you would get more investment in Canada; in others you would get less. Where it would net out in total is not clear to me.

Mr. Ferraro: Let me ask you a question, and I realize it is an extremely difficult question to answer: If you cannot answer it, how the hell are the politicians going to deal with it?

Mr. Chairman: In fairness, what the witnesses are doing is presenting us with the facts. It is up to us to come to the eventual conclusions.

Mr. Ferraro: I am just trying to substantiate our predicament. I say this to Dr. Purchase respectfully because it is an enormous problem. It is obvious the chief economist of Ontario



is having difficulty with it, and I respect and understand that. I am just laying some groundwork.

Miss Stephenson: It is unfair even to suggest that one economist in the employ of the government of Ontario does not have an opinion. I would wager Dr. Purchase has a very strong opinion about the direction we should be taking.

Mr. Ferraro: He is too smart to say so.

Miss Stephenson: I would wager there are other economists in the Ministry of Treasury and Economics who have quite different opinions. The argument obviously is not going to be settled there any more than we are probably going to settle it here, except to know the kinds of directions we think probably are best and have a gut feeling will be best for the province.

I am not sure that anybody is ever going to have all the facts or that all the research is ever going to be done. If as Mr. Mackenzie said you are looking at it from the point of view of employment, you will go in one direction.

Mr. Taylor: Even facts lack definition.

Miss Stephenson: That is right; exactly. If you are looking at it from another point of view, you may go in a different direction.

Mr. Ferraro: Does it not say something about the vacuum we are in as politicians if the experts, and I say it respectfully--

Miss Stephenson: My dear Mr. Ferraro, one learns to function within vacuums of various degrees as one's experience expands in the area of political activity. The vacuum changes; that is the point. The circumstances surrounding the vacuum or the circumstances that influence the vacuum change on a regular basis; so unhappily you are always on somewhat shifting ground.

Mr. Taylor: You will find government is one big vacuum cleaner.

11:50 a.m.

Mr. Knight: I am operating in a vacuum from here to here and have been for some time.

Dr. Purchase, I wonder whether there is any model you are aware of, either in your own ministry or that would be available to us, that might come up, not with an answer but with some direction depending on what is put into the model. Is any model available?

Dr. Purchase: Yes, there is, and we will present some of that evidence here. There are models that have been done.

The predominant view among economists you may consult will be pro. The argument will be that trade will increase national

income and probably will increase this year the proportion of investment in Canada. To the extent that it increases total income, it will also increase savings and investment.

There may be differences of opinion about what would happen in specific industries depending on which types of firms dominated those industries, whether they were foreign-owned multinationals and what their particular strategies were. But I can say without question that the view from economists will be generally positive.

Let me add a caveat to that. First of all, no one knows for sure, not even economists; they can tell you what they think. The more important thing aside from that is it all depends on the type of deal negotiated. Anything is possible here. It is not like free trade or no free trade. There are infinite possibilities in between. The structure of that deal will influence the net outcome very much.

It is not up to me to warrant one thing or another, but I suggest in any such negotiations, everything is up and anything is possible. To think it is a simple matter of one thing or another and leads to one result or another is probably not the most productive or useful way to approach it. There are deals you could make, if the Americans would go along, which would be tremendous. There are other things you could do that would be disastrous.

Mr. Chairman: When you predict most economists will be pro, are you talking from an Ontario perspective or from a Canadian perspective? Have many economists looked at Ontario's perspective?

Dr. Purchase: The economists would tend to have the same view whether it was Ontario or Canada, to tell you the truth. That is not to say I do not know of economists, many of them my personal friends, who would disagree with me and who would say if you look at the right problems, you will see there would not be as much investment in Canada.

Mr. Knight: Just to make sure I am clear, you were talking about pro with respect to investment?

Dr. Purchase: They probably will not answer the question directly in terms of investment. They will answer in terms of increased income of Canadians, which presumably would lead to increased investment as well.

Remember the father of modern economics was Adam Smith, and that was all about free trade essentially and specialization in production as a result of having a larger market. We will see that bias from Congress. There is no question their entire learning is in many cases conditioned by that view: the best market is the world.

Mr. Knight: That is recognizing you are living in an ideal society with no tariffs or anything else.

Dr. Purchase: Precisely. In the real world there are a whole lot of deals you can work out, some of which will be more beneficial to you than others. The other side knows that as well.

Mr. Cordiano: Looking at the focus of our study purely from an economical standpoint, we are looking at it in a state of vacuum, because that is only one factor that enters into the entire picture. If we are looking at the parameters of our study, we have to include other relevant variables in that equation. That is a very crucial point because, notwithstanding the fact that income levels may rise, it is all based on a certain set of assumptions. This is only one aspect of our study. That question, as you say, is easily understood.

Dr. Purchase: As we will see when we get near the end of this presentation, there are many other issues aside from the issue of whether or not income would rise. There are issues related to perception of Canada's independence in the world and to culture and sovereignty; there are a whole host of things that could be considered equally as important as the income or employment issue.

Mr. Cordiano: Even with the economics question or the question of increased investment and income levels and the whole question of funds entering the country, that also becomes a very nebulous situation in terms of the deciding factors that make this decision a relevant one.

Dr. Purchase: Yes, I agree with that.

Mr. McFadden: One thing that comes to bear here with respect to employment and so on is to try to determine why people invest in this country. Right now, one of the selling points in all the Ministry of Industry, Trade and Technology publications is our access to the American market. There is always this picture of Ontario and the bull's-eye and how many people we can get at within so many driving miles or kilometres of Toronto..

Given our existing arrangements with the United States, it seems to me that is a pretty salient selling tool. In my experience, most people looking at locating in Ontario do not seem to be particularly intimidated, given our current trading relationships, let alone any freer trade relationships.

The reasons why people locate here are many. In the case of some investors, they are trying to get money out of one country and into a safe haven. If they feel Ontario is safer than South Carolina, Quebec, California or Mexico, they will locate here. It has nothing to do with free trade. They may set up a plant here to do that.

There was one Japanese company in which I was involved in the automotive parts area that spent three years comparing Canada and the United States. While they had very good money offers from American jurisdictions, they got no dollar offers to come to Ontario, but they made a decision to come here. The chairman of the board told me the final turning point was that Ontario was a monarchy; he felt Canada was more similar to Japan with respect to its social organization, and he felt more comfortable investing his money and building up a North American presence in Ontario as a result. He set up his plant and they are going ahead.



What I am saying here is that perhaps we ought not to get too preoccupied with trade barriers and so on per se with respect to investment, because it seems investors overall tend to look at the longer term. They will obviously look at wage rates, living standards, proximity, the stability of government, which is a major thing, and cultural opportunities.

Often executives do not want to wind up in a place where they do not have a living standard they are used to. For example, if they are used to living in Paris, Rome or London, they may not choose to live in North Carolina. Toronto might be a lot more amenable to the life standard or, for that matter, California.

There are many factors that go into this whole mix. However, there is one thing I would be interested in seeing. I know the Conference Board of Canada did a review in relation to foreign investment to find out why people did or did not invest in Canada. Do we have similar studies from Ontario's perspective? I do not know whether the Ministry of Treasury and Economics or the Ministry of Industry, Trade and Technology has done them or whether anybody has done them. I know the Conference Board did a study around the world; it was quite an interesting one, and it has been widely quoted.

Do we have any government publications? If we do, could they be made available to the committee to see? That might help us to deal with the question about why people come here. From personal experience, I found the reasons were wide and varied, and it is relatively seldom they have anything to do with tariff barriers; they are mostly to do with other factors.

Dr. Purchase: Those are fair comments. I do not think you could say this issue predominates over other factors that influence investment location decisions. It is a factor now perhaps more than ever because of the problems with the US trade deficit. In that sense I would want to put it in its historical context. It is more a recent than ongoing phenomenon. The United States has not had this kind of trade deficit.

What we were trying to do here was simply to say a lot of people you may hear from will talk about US protectionism and the need to be worried about it. US Congressmen, as does the administration, encourage that worry because it helps them to get a better deal. You can overdo it. Your anxiety about protectionism in Congress is one of the great bargaining chips of the American administration in its dealings with other countries.

It is something you hear now commonly among businessmen. There is this concern, and to some degree it led to the sudden interest in a free trade arrangement with the United States.

Mr. Mackenzie: The more we discuss the ramifications of any major changes, or more free or more secure trade, I get the impression the bottom line is almost totally the dollar we are talking about.

Mr. Cordiano: That is looking at it in isolation.

Mr. Mackenzie: I hope we keep in mind that what we are looking at or should be concerned with is exactly what it is going to do in terms of our people and jobs. That is not necessarily going to go with the flow with respect to what people are advocating on the whole trade picture.

That is why, as I said, the more I hear the discussion around here the more the idea of content legislation appeals to me. That may be protectionism to some extent, but there may be more and more of our basic resources that should have some kind of leg up.

Mr. Chairman: That is a good point to stop. I remind the committee we agreed yesterday we would reassemble at 1:30 p.m.

The committee recessed at 12:03 p.m.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, JULY 24, 1985

Afternoon sitting



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LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, July 24, 1985

The committee resumed at 1:36 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Before we get back to our guest, Mr. Traficante would like to take us on a walk-through of our briefing book.

Mr. Traficante: I will be quite quick about it. If you have already looked at the material which arrived late last evening, you will see it is divided into seven sections. In general, the material was prepared by the research service and the library, which are available throughout these hearings for anything you might need.

First are arguments for and against bilateral free trade. This is a general review of some of the literature, a paper I wrote presenting arguments for and against. In addition, there is a discussion on multilateral and sectoral free trade, mostly in relation to current discussion on bilateral free trade. Second is the paper released in January by the Secretary of State for International Trade, entitled How to Secure and Enhance Canadian Access to Export Markets. That was one of the major originating papers in the current discussion.

Following that is the paper on Competitiveness and Security: Directions for Canada's International Relations. That was the discussion paper released fairly recently by the Minister for External Affairs, Joe Clark, and it has two parts: one deals specifically with trade and the other with the strategic defence initiative. I have prepared only the former part, since it is not within the purview of this committee to look at Star Wars.

Next is something prepared by the library--a comprehensive bibliography on the subject of free trade. It contains all of the materials that are available in the library. If there is anything you might want that is not contained there, we can obtain it for you fairly quickly, within probably a matter of days.

Next are selected articles on the issue of bilateral trade relations. There are five articles. Two are in favour of bilateral free trade and two are opposed. One of the papers in favour of free trade is by Professor Wonnacott, who will be speaking tomorrow morning. I thought you might be interested in that. The fifth paper deals specifically with American attitudes and opinions on the question of bilateral trade with Canada.

Next is a number of selected newspaper clippings. I have tried to be fairly representative in covering a number of different issues or problem areas that have arisen and in



presenting as broad a range of opinions as I possibly could find. Obviously, I had to be quite selective in that matter.

Finally, there are selected trade statistics. This is summary statistics material produced in 1983 by the then Ministry of Industry and Trade. I believe this is the most current. Some of the material was covered yesterday in the presentation, but it provides you with an opportunity to look at it yourselves. Most of it contains statistics from 1970 through 1973 for comparative purposes.

I will be providing to the committee on a regular basis, clippings on the subject of free trade or bilateral trade and anything related that appears in the Toronto daily newspapers. If there is any additional newspaper that you want me to provide on a regular basis, let me know. There may be a couple of days' delay with those because the library does not receive them the same day

Mr. Chairman: The Sault Star.

Mr. Trafficante: One final item is that we are available to provide anything you might need with respect to research or library facilities. If you would direct queries to me or through the chairman, I am sure we can be of help throughout the course of the deliberations. That is it.

Mr. Chairman: Thank you very much. Dr. Purchase.

Dr. Purchase: Moving to the next slide in front of the committee, to pick up a little on the investment question, this shows the pattern of foreign direct investment in Canada over the past 15 years and, similarly, Canadian direct investment abroad; that is, when Canadian firms go abroad and actually have ownership of foreign assets.

You will notice it was typical in the early 1970s, from 1970 to 1976, that foreign direct investment in Canada averaged about \$650 million a year. It began to increase towards the end of the 1970s. It became negative in 1981; there was a repatriation of foreign assets held in Canada. What you see for 1981 is the effect of the national energy program and the repatriation of foreign-owned firms by Canadian firms at that time.

Last year, there was a large increase in foreign direct investment in Canada, largely in the manufacturing and financial services areas. Since 1980, with the revisions to the Bank Act that allowed foreign banks to establish in Canada, there has been a fairly steady and significant increase in foreign investment inflow.

The first quarter of 1985 shows a reversal. I am not sure exactly what that is. It could have been a large takeover of a foreign-owned firm by Canadians or many small takeovers of foreign assets in Canada by Canadians. On the reverse side, you will see that typically Canadians did not invest much in the way of direct investment abroad in the early 1970s, but it has been increasing fairly dramatically from the latter part of the 1970s through the 1980s, 1982 being an exception due to the recession. It was still

significant at \$950 million. That figure has been increasing since that time.

There could be several possible explanations of the interest of Canadian firms in establishing or acquiring enterprises abroad. One possibility is the maturation of Canadian enterprises, that they have decided to become multinational; that is, as they get bigger they may pursue a strategy of going abroad. That is one possibility.

Another possibility is interest in the United States. Most investment abroad does go to the US. It received a large amount of foreign direct investment in the early 1980s in response to a whole host of factors that could have influenced it, such as many firms viewing the US market as secure relative to the other options in the world.

It might have been related to the deregulation activity or any number of factors in the US that were seen as positive influences. It could also have been related to the growth of nontariff barriers, so that you have to locate in the US to do business there. We do not yet know how much that explains it relative to the other things.

That gives you a quick overview of what has been happening with respect to direct investment. Incidentally, direct investment involves ownership, as I mentioned, and does not involve what is referred to as portfolio capital flows, which are bonds and nonownership-type assets. Typically, Canada has been a net capital importer; we borrow more abroad than we lend abroad.

Mr. Morin-Strom: Does it include the purchase of shares?

Dr. Purchase: Yes, it includes the purchase of shares where they involve--

Mr. Morin-Strom: This does not necessarily reflect tangible spending in the economy. It could be dominated by dollars that are transacted through changing ownership of existing facilities.

Dr. Purchase: It involves the purchase of shares where those involve more than a controlling interest. For example, if I were to purchase shares in a US company on a US exchange, that would not show up in the direct investment account.

What direct investment really picks up is where a Canadian firm establishes a subsidiary or acquires a business in a foreign country--either the acquisition of a business or building a new one. The numbers show an increasing interest in doing that.

Mr. Morin-Strom: Would it not be more relevant for our purposes to know how much tangible investment is being made?

Dr. Purchase: That is tangible.

Mr. Morin-Strom: I mean tangible in the sense of actually building new production capacity, new facilities, something that is going to create jobs.

Dr. Purchase: This is the financial side of the tangible act. The money flows out and is captured in these statistics and then is used to purchase materials to build the physical facility and to equip it with a plant.

Mr. Morin-Strom: But when Petro-Canada buys up BP or another American oil company or whatever, that is not creating a new facility; it is just changing the ownership. Are those dollars included here?

Dr. Purchase: Yes, they are included.

Mr. McFadden: You are using the term "direct investment" as opposed to "portfolio investment."

Dr. Purchase: That is correct.

Mr. McFadden: These numbers are quite significant. The direct investment is the most likely form of investment to create jobs, to create some form of economic activity that will create jobs and exports and so on. The worrisome thing is that from 1978 Canada, not Ontario, has a very significant net outflow of direct investment. As a country, historically we have tended to have more inflow than outflow. Over the last number of years, we have clearly had an outflow of capital either on the part of foreign investors or on the part of Canadians. Do you have any figures on what we can expect to be the intended behaviour in the years to come?

The second part of that is, as Mr. Taylor is suggesting, could you also give us some indication why, over such a protracted period, we have had such a fairly significant outflow of direct investment?

Dr. Purchase: We have not done a complete study of what the motivating factors are in the outflow of investment. We know some cursory things. We know, for example, that the national energy program influenced those flows. As was mentioned earlier, we can hypothesize that it may be related to the maturation of Canadian business. Once you reach a certain size, it makes sense for you to establish firms or subsidiaries abroad. Northern Telecom would be an example of that kind of firm.

Mr. Taylor: There are reasons for that too. Is there something being done domestically that entices them to locate abroad or in another jurisdiction? Do you understand what I am saying? The current government policy may decide that, if we could have some influence on it.

1:50 p.m.

Dr. Purchase: This goes back to an earlier discussion, but certainly the existence of, if you like, nontariff barriers in foreign countries where they relate to, for example, government procurement, would be a good case. You cannot bid on government contracts unless you have some domestic value added. If you are a Canadian firm, that will be an inducement to establish a subsidiary abroad, although it may not be the only one.



Mr. Taylor: It may not be the primary one either.

Dr. Purchase: No, it may not.

Mr. Taylor: I am thinking of the investment environment, the big movement of the development companies south of the border. Cadillac Fairview and others are doing better there than here.

Dr. Purchase: There are many possible explanations. I do not know and I have not seen studies that would demonstrate the reasons conclusively.

In the real estate development business, Canadian firms have been extremely successful in the US. In part, that was because the baby boom occurred slightly earlier in Canada than in the US and, therefore, the construction boom that followed it as those people matured occurred slightly earlier here. Canadian businessmen learned how to handle large real estate developments and, with the advantage of that early knowledge, went to the US and exploited a similar phenomenon that was going on there.

Mr. Taylor: Yes, but the development climate in Texas, for example, is a heck of a lot different from Ontario, if you want to get out there and do something and get it done with a minimum of government interference.

Dr. Purchase: That may be true. I am not an expert on that.

Mr. Taylor: That is a big factor. Time is money. To go through the system can be a very exhausting and sapping experience financially and from the point of view of energy. So you get jurisdictions where you can do what you know best how to do with a minimum of impediment.

Dr. Purchase: Yes.

Mr. McGuigan: You might have a slaughterhouse beside a new apartment building in Texas.

Mr. Taylor: You might, but you might also get some nice development if you go through one of those jurisdictions.

Mr. Mackenzie: For my information, so I understand it better, in the case of the Hamilton plant of Allen Industries--I forget the owner corporation--that closed down in the last year or so and moved to Chihuahua, Mexico, or the Bendix plant, a case we had before the select committee on plant shutdowns and employee adjustment, which closed on very sudden notice and had its production moved to the head office plant in Milwaukee, would those transfers show in these figures?

Dr. Purchase: If there was a sale of the physical assets that were left here--in other words, if they sold to a Canadian the plant they were no longer using--I think it would be picked up in these figures.

Mr. Mackenzie: If the actual plants were sold, which to

the best of my knowledge in both cases they were not, it would show.

Dr. Purchase: Yes.

Mr. Mackenzie: But it would not show that we had lost a plant and an entire operation, both of which were fair-sized, to the United States. The net outflow here may not be a fraction of what there is in terms of the few years we have gone through in plant closures.

Dr. Purchase: If a plant was shut down and there was no financial transaction related to the sale of its assets, these numbers will not tell you. It could have laid off all its employees or whatever.

Mr. Mackenzie: The production could have moved to another country altogether.

Dr. Purchase: They could have moved the production and this would not be picked up in these numbers. That is true.

Mr. McGuigan: Would the investment in the United States not be picked up?

Dr. Purchase: Where there is a financial transaction that can be measured and caught by Statistics Canada, where a Canadian firm acquires assets in the United States, that would be picked up.

Mr. McGuigan: If the American firm simply goes home, you would not pick it up, would you?

Dr. Purchase: Not if they just packed their bags and walked out one day.

Mr. Ferraro: You would pick up, though, as Bob mentioned, on Bendix, for example, because it opened up a new plant in Guelph a few years ago.

Dr. Purchase: That would show up in these statistics.

Mr. Mackenzie: What does this show us then, other than an outflow of capital in terms of direct investment? There are a lot of holes in it.

Dr. Purchase: I could not show you any set of statistics in which there were not an awful lot of holes, but it shows you that international capital flows relate to ownership of assets. We can see firms moving in the context of becoming multinationals. There is an increase in Canadian interest in establishing abroad compared to the earlier period. That is a significant thing.

I would not necessarily argue that it is a wholly negative thing. While you might argue that if a firm locates abroad it does not create domestic production jobs, there are lots of exports associated with the service side and foreign ownership. It is one of the great advantages Americans have had; they were capital

exporters for so long, and they have many subsidiary firms abroad. They generate, by virtue of having those subsidiaries, a great deal of export on the service side, the kind of business services they have supplied to their subsidiaries, such as patents, royalties, etc.

Mr. Mackenzie: Does that come near balancing in terms of hard employment? What happens when you are producing the hard goods? That is a question in my mind. I can see the value of the service side benefits, but I am not sure it makes up for jobs

Dr. Purchase: I do not know that it would balance out for jobs. I know they tend to be different jobs, and different sets of people are affected by it.

Mr. McFadden: There is a question that disturbs me. In the first quarter of 1985, direct investment in Canada and Canadian investment abroad were both showing deficits. Is that a normal pattern in the first quarter?

Secondly, in dealing with the question of the impact of direct investment on employment, it is interesting that in 1981 and 1982 we showed a substantial deficit. Then, as we started to see the economy turn around, we wound up with a more positive picture. The disturbing thing is that we are into a negative picture again.

If I understand the figures historically, as the economy is improving, both foreign and domestic investment tend to be on the plus or buoyant side, and as the economy is heading into recession, people tend to pull back because they are losing confidence.

I wonder what this first quarter of 1985 indicates, if anything. Is it merely a cyclical thing that happens every year, or is it a precursor of something else?

Dr. Purchase: I read nothing into the first quarter. There would be no seasonal pattern in this, and the numbers for one quarter can be dominated by one deal. The figures would not tell you anything. If one major oil company was being bought by Canadians, then it would be a huge number and would not tell you anything real that is happening. I do not think that number is significant.

2 p.m.

What is more significant is that the 1984 number shows a very large positive inflow of foreign direct investment. Whether that will continue, I do not know, and I am not sure anyone could predict it. On the outflow side, there are enough years that, if you compared it with history, you would see that Canadian firms are more and more interested in investment abroad. I would feel confident about saying that.

We dealt with the next slide to some degree--

Mr. Ferraro: You do not have this format of slide on direct investment pursuant specifically to Ontario?



Dr. Purchase: No, it is not available for Ontario.

Mr. Ferraro: You could not hazard a guess what percentage this would be?

Dr. Purchase: No, I could not. It requires a great deal of time to track it all down. These numbers are not produced for Ontario alone.

Mr. Mackenzie: What would happen if we could wave a magic wand or produce the incentives that resulted in some transfers? In other words, if the \$2.38 billion that was invested in Canada came out of the \$4.025 billion that Canadians invested abroad, would that have the result of substantially lessening foreign ownership in this country? I guess the problem is convincing the Canadian investors to invest here in the areas where there has been foreign investment.

Dr. Purchase: That is certainly true.

Mr. Mackenzie: If there is a concern about the extent of foreign ownership in some industries--there is enough money going abroad in direct investment--one of the answers would be to transfer it here.

Dr. Purchase: Yes.

Mr. Mackenzie: Although we might lose something in overseas investment.

Dr. Purchase: It is an issue whether the Canadian firms would do it. In the abstract, if they were required to do it, or if they could not export capital, presumably there would be more here, but not necessarily; it may work out that way or it may not.

Mr. Taylor: Do you have anything about the success or otherwise of the immigrant entrepreneurial program? A fair amount of the money that fled from or came through Hong Kong came here. It might have been just a stopping-off place.

Dr. Purchase: You would capture that in another account, on the capital account of the balance of payments. I cannot recall exactly what it is, but it would not be what we call direct investment. That money often comes with the immigrant as part of his personal assets. It does represent a capital inflow. There is some capturing of that. It often goes into establishing new business in Canada.

Mr. Taylor: As a condition of immigration, it would have to be. I do not know whether there is a measure of the amount of investment through that program. With the unsettling situation prior to the new agreement on Hong Kong, it strikes me that there is a fair amount of money moving around.

Mr. Morin-Strom: Does this document not say there is an opportunity for the interest groups from the federal government to redirect their efforts? Recently the federal government has been talking about the need for encouraging overseas investment in

Canada. Is this not showing there is an increasing amount of investment leaving Canada? Would there not be a major opportunity for getting investment in Canada from Canadian sources if we had the proper encouragements in place and for encouraging Canadian ownership at the same time?

Dr. Purchase: I think as far as I can go is to say that it shows more Canadian corporations are interested in investing abroad. I do not want to comment on whether it represents an opportunity to reverse that or whether that would be a useful policy.

Mr. Taylor: That may be necessary for them to gain business with many developing countries, for example. They want joint ventures and domestic production as much as possible in order to sell there.

Mr. Mackenzie: And they require content legislation in many cases.

Mr. Taylor: Yes, indeed.

Mr. Mackenzie: It can work both ways, but we have never done it here.

Mr. Cordiano: I was asking whether there was a breakdown as to country of origin.

Dr. Purchase: We can provide a breakdown by country of origin.

Mr. Cordiano: Would it be safe to assume it still holds true that the United States holds the lion's share of direct investment in this country?

Dr. Purchase: Seventy seven per cent of it is from the United States, but we can give you a more detailed breakdown from which you may be able to capture the issue of whether there is more foreign capital coming from Asian sources, for example.

Mr. Ferraro: I am sorry, Mr. Chairman; I have one other question on this chart. As you say, Dr. Purchase, there are a lot of holes in this rough indicator. Would this indicate to you if, for example, many West Germans came in and just bought land, which is a nonproductive investment from the standpoint of generating jobs? Just to use that one example, is that what this chart would indicate as well? It is an investment, but it is not productive.

Dr. Purchase: I cannot answer that question right now. We will answer it. It would be minuscule in relation to the investment by corporations, but even that investment by corporations will involve some purchase of land; so it is probably is captured there. As to isolating a transaction that was just for the purpose of purchasing land, I do not know if that would be picked up in this particular.

The next slide deals with an issue we have dealt with to some degree before. It talks about what we call secure access, and

we made the point that countervailing duties and countervail legislation in the United States makes access somewhat less secure regardless of whether you get greater access or whether you have the same access. It is part of what the Congress now regards as its war on unfair trade, where they believe there are foreign subsidies given to firms that export into the US market. They talk a great deal about fair trade, and they see the countervail as an attempt to offset these foreign subsidies.

Regional development grants, for example, might be subject to countervail. There was the case of the Michelin Tire, where a countervail was applied. We mentioned hogs; the stabilization programs and marketing assistance in agriculture are all potentially subject to countervail. Lumber is another example we dealt with.

The important thing to remember about the countervail in the United States is that it applies where you can demonstrate there was a subsidy and there was injury, but it is not a balance of subsidies. In other words, all it does is look to see if there was a foreign subsidy; it does not look to see whether there was an equivalent American subsidy.

You can have an industry that is very heavily subsidized in the United States--I think the example given earlier was agriculture, which in the United States is heavily subsidized and perhaps more heavily subsidized than Canadian agriculture; Americans now regard some Canadian stabilization programs as preferable to their own, and less expensive--and still get hit with countervail if you subsidize your industry.

They will not take into account the balance of the subsidies. They will only look for the existence of the subsidy in the foreign industry. That makes it very difficult to deal with; it is not exactly what you would call a fair trade situation.

2:10 p.m.

Mr. Mackenzie: I am sorry to be anecdotal, but we have just finished meeting with the current minister over the Firestone problems in Hamilton. The deal worked out with Firestone, which I believe was on the basis of \$15.2 million from the federal authorities for some new equipment and refurbishing, was that the Hamilton plant had captured most, if not all, of the market for bias-ply tires for tractors and a good chunk of it for medium trucks, although there is also an American Firestone plant that produces bias-ply tires, and there may be other companies as well.

Regardless of whether I think they got suckered on bias-ply, since other than tractors and some trucks the future market is with radials, would they be in trouble on the basis of that \$15.2 million from the feds if there were a move in the United States with respect to additional tariffs or protection, even though it was a corporate rationalization that came up with the plan to let the Hamilton plant produce bias-ply tires, with most of the radials coming from American plants?

Dr. Purchase: If a case were brought against them under countervail and taken to the Department of Commerce for study and



the Commerce department determined first that there was injury to the US industry--

Mr. Mackenzie: That could be done by another company besides Firestone?

Dr. Purchase: Yes.

Mr. Mackenzie: And Firestone could be off the hook in the sense of saying, "We did not bring the complaint"?

Dr. Purchase: That is right. Presumably, it would not be Firestone that would take a complaint such as that.

Mr. Knight: Is that likely for an industry with a large foreign ownership where there is the countervail problem?

Mr. Mackenzie: We heard complaints even from the American Firestone plants about the extent of the temporarily increased production in the bias plant in Hamilton. I can see it happening; that is why it struck me. The \$15 million they got in federal assistance leaves us wide open if somebody wants to raise the issue in the United States.

Dr. Purchase: Yes.

Mr. McGuigan: Was that not the case with Michelin in Nova Scotia?

Dr. Purchase: Yes. The tires were substantially exported to the US market. What is required is that you demonstrate injury and the existence of subsidy. In this case subsidy would not be difficult to demonstrate. However, it has to be significant. It has to be more than it was, for example, in the case of the stumpage fee for softwood lumber.

We have a problem in Canada in particular, although this is true of many other countries, where we are heavily involved for industrial development purposes in subsidies of one sort or another. We simply do not know which ones might be subject to countervail or might have cases taken against them. We could be arguing for time immemorial.

Mr. McGuigan: Do these rules of countervail fall under the General Agreement on Tariffs and Trade and we all play by the same rules, or do the Americans have special rules of their own?

Dr. Purchase: Countervail is permissible under GATT.

Mr. McGuigan: We are all basically playing by the same rules, except we are far more vulnerable in Canada because we have 30 or 31 per cent of our exports and they have only 10 per cent.

Dr. Purchase: The fact that we now are in a period when so many American firms feel threatened by foreign competitors for one reason or another means there has been a great deal more resort to the countervail option. It is something that could conceivably be there whether or not you negotiated a free trade

deal with the United States. It could be there, but not necessarily. I am not saying that countervail is not also subject to negotiation but, for example, in the Israeli deal with the United States setting up a free trade arrangement, the Israelis did not get any deal on countervail. Countervail is still applicable to them.

Mr. McFadden: Dealing with countervail as well, and the whole question of regional development grants, the point Mr. Mackenzie raised, if you look at each state in the United States and the package of industrial incentive programs they have, many parts of the US have far more generous programs than are available to anybody locating in Ontario.

If you are locating in Quebec or the maritime provinces our programs, to some extent, are more generous; but if you look at what is available overall in Ontario and compare that with the range of programs available in American jurisdictions, I do not think, as a general rule, we have anything to hide.

Any given company might be able to raise that but, when you add up the free land programs and no-tax programs that various American municipalities have, and you add them to the available state programs and many of the federal programs, they are far more thorough and cover a broader range of things than what is available, for example, to an industry locating in Ontario.

You may have some examples of Ontario firms that have been successfully charged under this, but I think it has tended to be more in other provinces where the federal government under the Department of Regional Economic Expansion or the Department of Regional Industrial Expansion has had very enriched grant programs. The entrepreneur setting up a plant may not have had to put up more than 10 per cent or 20 per cent of the capital.

I do not think that has been a typical problem for Ontario-based industries because we have never had those enriched programs, from either the federal government or the provincial government. Of course, our municipalities are barred from offering free land or tax-free benefits. I wonder how big an issue this is for most Ontario manufacturers.

Dr. Purchase: Lumber, obviously, is an issue for lumber firms here and our farmers are affected by the hog issue.

Mr. McFadden: I was thinking about secondary manufacturing though.

Dr. Purchase: Recent examples of Ontario manufacturers. Do you want to describe the Honeywell case?

Mr. Welwood: I cannot recall if it was Honeywell in Ontario. It certainly fits the pattern of secondary manufacturing, but I am not sure where it was located. The essence of it was that there was a research and development subsidy provided for a particular product and it was determined that that was a subsidy that was disputed by Canada.

I believe that, in that case after a while, the countervailing duty was removed because it was determined that there was no injury, once that test was later added to the procedures. The question of whether it was a subsidy was decided in the affirmative, as I recall.

Mr. McFadden: That is interesting. I happen to have this thing in my office. I must look at it. We might have a book. I know the Department of Commerce in the United States puts out a publication periodically outlining what is available in every state in the United States. It might be instructive to take a look at that for our purposes and evaluate exactly what situations we are up against in reality when we talk about countervail and subsidies.

Dr. Purchase: The interesting thing about subsidy is that, as I mentioned, the way it works now in the United States it does not matter if they offer subsidies to the very same firms. All that matters is that the foreign competitor offers a subsidy. Of course, there are a great number of subsidies, as you mentioned, not only explicit ones but implicit ones, in military contracts and so forth. The way the American law works, it does not matter.

2:20 p.m.

Mr. Ferraro: How significant a contributing factor to the imposition of the countervail part of the United States is the distinction between the value of the bucks? In other words, there is no clear definition of subsidy, so I would imagine it reinforces the difficulty behind the scenes to some degree. If we were 98 cents US, would much of the countervail action would be there or negated?

Dr. Purchase: It is not contingent on the relative values of the dollar. It is contingent on the size of the subsidy given to domestic production which would be--

Mr. Ferraro: It would be a contributing factor, would it not, to, say, hog producers in the United States. They can buy a hog a hell of a lot cheaper there than we can here.

Dr. Purchase: Absolutely. This may go to the question of the relationship between the subsidy and the degree of injury. Canadian producers may be making huge inroads into the US market because of the relative values of the currencies and the subsidy may not be that important. I believe that the injury test would take that into account to some degree; in other words, to what degree injury is related to the subsidy per se and not simply to the relative values of the currency. But you can understand that the emotions are involved; all anyone cares about is that you are subsidized and that you are taking a huge part of the market. They might forget about why.

Mr. Ferraro: So it is a significant factor.

Mr. McGuigan: Mr. Chairman, I have a question about the



system as it affects the United States and Canada. I understand that when the Americans determine that something is under question, they simply say, "You have a five cents a pound tariff that we are going to collect and we will collect that for several months until the thing has gone to the International--" What do they call it?

Dr. Purchase: The ITC, International Trade Commission.

Mr. McGuigan: It goes before the ITC which makes a determination whether or not that tariff is valid. If it is, it keeps the money and if it is not, I think it gives it back. Is that the system?

Do we work that same system? I cannot recall a similar situation where Canada puts a penalty on before it is proven.

Dr. Purchase: Before they demonstrate the case. I am not sure of the law in that case.

Mr. McGuigan: That is not part of the General Agreement on Tariffs and Trade, is it?

Dr. Purchase: We will have to check that. I do not know the answer to that.

Mr. Taylor: Is there a hanging before the conviction, in other words?

Mr. McGuigan: It is put into a sort of trust account, but it upsets your trade because you lose a lot in hogs.

Mr. Taylor: You might go broke and then your trustee in bankruptcy gets the money.

Mr. McGuigan: That is right, but you lose that five cents in hogs; not only on the 30 per cent that goes to the United States, you lose it on the 70 per cent that goes to Canada. So it is a five per cent penalty on the total trade, not just on the 30 per cent.

Mr. Taylor: For a guy who has been talking about hogs all day and yesterday, I do not know what you have got against slaughterhouses.

Mr. McGuigan: I would not want one outside my apartment house.

Dr. Purchase: I am advised that it may be true, that they can impose the penalty prior to the final determination.

Mr. McGuigan: Under GATT?

Dr. Purchase: Yes, but we will check that because I am not sure myself if that is the case.

Mr. Cordiano: How do the two countries compare with

regard to nontariff barriers? We are seeing countervail, you are explaining this as far as the US is concerned. How do we compare to them as far as nontariff barriers are concerned? Can we get an understanding of the kinds of things going on on both sides of the border?

Dr. Purchase: We have undertaken to supply you with a list of important nontariff barriers with respect to government procurement in the United States. We may be able to expand the list to other types of legislation which may be regarded as part of a nontariff area. It is quite large on both sides of the border. My understanding is that, in so far as goods trade is concerned, Canada has traditionally relied more on tariff barriers and the United States has relied more on nontariff barriers. Of course, as tariff barriers have come down under multilateral negotiations, we have become in one sense more open to international trade than other countries because of their previous greater reliance on the nontariff side.

I have not seen a definitive study because it is so difficult to measure. All you can do is list the pieces of legislation. We do not know how they all add up. It is not quite the same as tariffs where you have a percentage of the price.

Mr. Cordiano: It seems to me if there is any negotiating with the US on increased trade, then we have to be very specific about the kinds of things we are going to negotiate regarding nontariff and other trade barriers and those would be determined in practice.

Dr. Purchase: Yes, very much so. Anyone entering a negotiation, if there is to be a negotiation, would be wise to be armed with all the facts on what is being done on both sides of the border.

Mr. Cordiano: Would it be possible to be very specific about some of these things? Do we have the ability to pinpoint those items which are pretty nasty in respect to our trade?

Dr. Purchase: Yes, I think so. There is sufficient knowledge now to be able to pinpoint the ones that are major irritants on both sides. My understanding is that several departments at the federal level, as well as some in Ontario and in the other provinces, are also reviewing these things in depth. Presumably everyone is now getting a list together of things where there may be an advantage in having a foreign nontariff barrier removed or some cost of having one of our own removed. Many of these are not just in the federal jurisdiction. Many of them, if not most of them, might be in the provincial jurisdiction or in the jurisdiction of the United States so it will be an enormously complex negotiation if it takes place.

Mr. McFadden: One of the real problems I think we face in confronting this--and it would be interesting to analyse it--is that government procurement is tied up with various social and political problems and priorities. For example, in government tendering, the small-business lobby in the United States is

consistently trying to carve out parts of tenders that have small business set aside. No foreign enterprises can go into small business that is set aside. In turn, they carve out another part and say, "This is for high unemployment areas." Then there will be another one cut out for minority industry and sometimes you run into tenders that are only for small-business, slow-growth areas for minorities. It would be pretty hard for us to tackle because you are tackling three different significant groups all at once with domestic political requirements that have to be met.

Mr. Taylor: Affirmative action.

Mr. McFadden: Yes. Some programs deal with affirmative action for women although "minorities" usually include women as well as racial minorities.

Mr. Taylor: There was a bill on the books here with regard to trading with certain nations that the federal government did not enact but we did. Do you remember? It was intended to counteract the Arab world's views of trading with a country that traded with Israel. I do not know what came out of that.

Dr. Purchase: I recall that but I do not remember how it came out.

2:30 p.m.

Mr. Taylor: We have it on the books here. We went ahead with it provincially but the federal people pulled away from it. I have never heard of what the ramifications of that have been in terms of trade, but we had that before a committee of the Legislature and there was a great deal of concern expressed by banks, Bell Telephone and other groups. There has been no monitoring of that?

Dr. Purchase: No. I just recall the issue; I do not recall what transpired as a result of it.

Mr. McFadden: Would you happen to have figures--or could we develop them?--that would tell us the number of quotes and so on of American government agencies--just the federal; the states get so complex--that have all these special tags on them that exclude us and what all the special tags might be?

It seems to me that if we are to make a run at this, we have to determine what preferences they are trying to create and why they are creating them. For us to discuss any negotiating, we have to understand why the preferences have been created, who they are trying to protect and how it might be contrary to American interests, let alone ours, to keep this up. It is fairly complex in that all the various quotations come out virtually daily from various government agencies. I do not know what figures are maintained, either by our office in New York or our embassy in Washington, on those points.

Dr. Purchase: We can supply you with a list of some of the US nontariff barriers. On this question of set-asides, the US



federal and state governments have set aside 5 per cent to 15 per cent of total contracts for small business, minority-owned businesses or businesses in high unemployment areas. So that is five to 15 per cent set aside for those things which cannot be bid on presumably by us.

Mr. McFadden: That is five to 15 per cent nationally?

Dr. Purchase: Both US federal and state government contracts.

Mr. McFadden: So somebody could go as low as five per cent or as high as 15 per cent. I could not quite understand what that figure meant.

Dr. Purchase: Five to 15 per cent of the total contracts.

Mr. McFadden: Of all governments in the United States?

Dr. Purchase: Of all governments in the United States. It could work out if you start getting into the arithmetic, for example, if state procurement happens to be a smaller number than the total federal budget and state procurement was, let us say, five per cent set-asides for the small-business area, but 15 per cent of the federal budget was. It works out to a little more. I think the federal government in the United States probably has a larger expenditure than the total of all state governments or, if not larger, it is very close, because it is more a highly centralized system of government than we have in Canada. The number would be a very significant.

Mr. McGuigan: When you work all of that out, Mr. Chairman, I think you have to add the difference between our two forms of government. Look at the tremendous power that is wielded by senators who have been there for 25 or 30 years. They have ranking--I am looking for the right word. Anyway, they have great power.

Mr. McFadden: Seniority.

Mr. McGuigan: Seniority. They have seniority and--

Mr. McFadden: We have a great deal of seniority on this committee.

Mr. McGuigan: The senator from Ohio, to use the hog example again, can get a few other people to support him. He says, "You support my bill and I will support your bill." They get these bills through. That is impossible under our parliamentary system. I do not think we should hold out great hope that we are going to eliminate nontariff barriers as long as they have that congressional system as opposed to our parliamentary system.

Mr. Morin-Strom: I would like to get back to this issue of the countervailing duties. You put a lot of focus on it. In my understanding of protectionist measures in both the United States and in Canada there is another major element which you have not

mentioned here; that is anti-dumping legislation. I wonder if you could give us a little background on anti-dumping legislation in both countries. How often is antidumping used as a measure to protect and ensure fair trading compared to the countervailing duties? Should we be putting more emphasis on anti-dumping legislation instead of using countervailing duties as a protectionist measure?

Dr. Purchase: David, would you like to answer that question?

Mr. Trick: To answer that briefly and without specific numbers in mind, the general trend is that Canadian firms are more threatened by countervail duty legislation in the United States and American firms are more likely to be hit by antidumping in Canada. Because tariffs are somewhat higher in Canada, a firm tries to dump, or sell below its domestic market price, so it can get in under the tariff barrier. Because our tariffs are a bit higher, it often happens that an American firm will try to shave its profit margin and be accused of dumping. Hence, that is the more probable form of measure we would launch against them.

For Canadian firms going to the United States, tariffs are less of a problem. There is less incentive to "dump." That is why we focused on countervail as being a more likely problem for Canadian firms.

Mr. McFadden: I do not know how many people tend to dump here, but that law has to be the most useless thing for Canadian business I have ever heard of. It is costly and time consuming. Unless you are a giant corporation and want to spend thousands on legal fees and everything else to get up to Ottawa, and then appeal it forever, I just think that dumping legislation in this country is worthless for most businesses.

There is always a threat, but the only thing the government will do is to send somebody from some embassy in Europe or in the United States to poke around. When they make a finding, it is up to you to do whatever you want to with it. I know most small businesses just cannot afford to get involved in a case like that. It is about the only thing I know of where the complainant, the person who appears to be wronged, has to finance everything. Not only that, but the success rate is low. Part of it is because the onus has been improperly placed.

I do not know what position you are taking on antidumping. I know the act has been subject to some review, but the way it is structured now is totally worthless, in my experience, to smaller Canadian businesses who are being dumped on from somewhere else.

Mr. McGuigan: Even if you are successful, probably two years down the road, they have taken over your market in the meantime.

Mr. Morin-Strom: Could I speak on the issue of antidumping? I agree completely with your remarks with respect to the difficulty of using antidumping and the tedious process and costly nature of proceeding with it, but it has been absolutely

essential to the steel industry. It would be foolhardy to try to suggest it is a useless measure.

It is a measure which should be much more accessible and easier to use, because it is directly attacking the most unfair of trade practices rather than what I see countervailing duties doing. Countervailing duties are attacking another country's government policy or trying to adjust government policies in other countries to match your own, which is what I often view the US as trying to do through the countervailing duty actions. In the steel industry it has been very important to proceed. Well over a dozen cases have been proceeded on, not against the United States, but the developing countries.

Mr. Chairman: I wonder if we could get back to our witness. There will be lots of time for making speeches.

2:40 p.m.

Dr. Purchase: I wanted to mention the escape clause which allows the United States to impose tariffs or quotas when US industries are threatened with serious injury from foreign competition. That is a situation where, even though the competition may be fair, if the United States is getting knocked out in its domestic market by substantial foreign imports, it has legislation, which is valid under the General Agreement on Tariffs and Trade incidentally, that would allow it to impose duties or quotas for the injured industry.

We note that it "provides for compensation to the exporting countries." The compensation has to be negotiated. If the Americans applied a quota or duty against steel, under GATT rules you could ask for compensation for something else. They might offer it on fish even though you do not happen to export any fish. It takes a long process of negotiation to get the compensation and it may not be of use to you, given your primary interest in whatever commodity happens to be doing well in the United States.

It can often be a situation that will affect Canada, even though other countries are the primary cause of the injury. We may or may not be able to negotiate some exemptions. I think we managed to work out a deal with specialty steel. The Americans sometimes use this as a lever to get voluntary export restraint from other countries and so forth. They use this and the countervail and to some degree, antidumping. Antidumping is particularly important in industries that have high fixed costs and have to operate at high rates of utilization to recover those costs. When anything happens so the market turns down, everyone is out there trying to hustle the product to keep production levels up.

In a sense these things are all there even with so-called free trade, but it does not mean in principle that each of them cannot be negotiated. For example, with countervailing duties you might conceivably negotiate an arrangement whereby the American legislation would take into account the existence of its own subsidies and have a balance of subsidies. What I am saying is that issue is separate to some degree and speaks to the question



of secure access. It is separate to some degree from the discussion about greater access, but you could get greater access and these things would remain the same, essentially unchanged, and they are significant issues.

We want to take you through some of the types of trade agreements that are possible and that exist in the world, and to clear up what is meant by various terms that are often used.

A common market is where you have free movement, not only of goods and services, but also of capital and labour. A second feature is you have, not only no tariffs or impediments to the movement of goods and services, capital and labour between the countries but you also have a common external tariff against all other countries. The European Community is an example of a common market.

A customs union is a circumstance where goods and services, but not capital and labour, are allowed to move freely between the two countries or more than two countries.

Mr. Chairman: You talk about labour moving freely between countries. How are immigration laws affected by that?

Dr. Purchase: In principle, there would be no restrictions on the movement of people between countries.

Mr. Chairman: Does that occur in the European Community?

Dr. Purchase: To my knowledge, it is approximated at any rate. There may be some minor discrepancies, but there is essentially free movement. You do not need a green card to work in another country. Currently, of course, a Canadian cannot go to work in the United States nor can you come to Canada to work if you are an American, so there are restrictions on the movement of labour between the two countries. This is not true with Europe. The customs union also has a common external tariff.

In the free trade area, which is allowable under article 24 of the General Agreement on Tariffs and Trade, two countries that are members of GATT can also have a free trade area provided it applies to substantially all trade between the two. A free trade area just applies to the barriers with respect to goods and services. It does not require the country to allow capital or labour to move freely between the two countries, and it does not require a common external tariff. In other words, Canada and the US could have a free trade area, but we would each have different tariffs with respect to the rest of the world, although we would have no tariffs with respect to each other.

Another type of possible agreement would be what are known as functional agreements. These are agreements that could be signed on particular types of activities, for example, government procurement. You could have an agreement, a bilateral Canada-US deal, which simply dealt with government procurement or subsidies in one form or another and just that. You might not have anything else; you might just have that particular agreement.

Mr. Chairman: You mentioned in your example US-Israel is a free trade area?

Dr. Purchase: Yes.

Mr. Chairman: What would happen if a third country came to have a free trade area with the United States?

Dr. Purchase: We would have our own tariffs with respect to Israel. It is not a linkage deal whereby if we were to do a free trade arrangement with the United States we would automatically have one with Israel.

Mr. Taylor: You might set up your business in the US in that case.

Dr. Purchase: There would be an incentive to set up business in the United States.

Mr. Taylor: The same as Australia and New Zealand. If you want an entrée to the Australian market, then you set up in New Zealand so you can trade.

Dr. Purchase: That is entirely possible.

The other possibility is a sectoral agreement whereby we focus on one, two or a few sectors. There was some earlier discussion on this option and, of course, we have two. One is in respect of the auto pact, which was a sectoral agreement whereby with certain restrictions and safeguards there is free trade, that is to say there is the absence of tariffs on new automobiles exported to and imported from the two countries.

2:50 p.m.

The defence production sharing arrangement is also a quasi--I do not know if "free trade" is the proper term to use here, but it is a bilateral deal. It relates to the balance of trade between the two countries, so it is a little different from anything else you might see. It says that over time there should be a balance of trade in defence products between the two countries, even though at any one time one country may have a surplus and a corresponding deficit. Over time presumably this is to be balanced, and it presumably does allow Canadian firms access to bid on some US government contracts. It is not a perfectly free, open deal. It focuses on having balanced trade, as opposed to simply saying whatever the balance turns out to be is fine. Everyone is free to trade as they want, it is a highly specialized kind of arrangement.

Now we will turn to the arguments. We are moving here from the discussion of secure access to some degree to the discussion of greater access, which I regard as the one that really pertains to the question of reducing the existing trade barriers between Canada and the United States.

The first argument you will hear in favour of that is it would allow greater specialization in Canada, so the Canadian

economy could focus more on its comparative advantage. Similarly, it would presumably allow some greater specialization in the United States with respect to its trade with Canada. This specialization would lead to an increase in income in Canada because we would be producing those things that we can produce relatively more efficiently than the Americans.

The second argument you will hear is that it would allow greater economies of scale. That is to say that currently many Canadian manufacturers, to the extent that they are limited to the domestic market and they produce multiple product lines, have short production runs on any one product. Access to a larger market via free trade would allow them to have longer production runs on those products and achieve lower costs per unit. Some economists believe that is a very significant advantage.

The third argument is that there are also efficiencies due to increased competition per se. I notice that firms try harder when there are more competitors in the field. While no one relishes competition, it does produce higher productivity and a more efficient operation than does the absence of competition.

The fourth argument in favour of greater access to the US market is that it would encourage Canadian manufacturers to move upscale in their goods, which is to say it might encourage more processing to be done in Canada. The reason for this is that the structure of US tariffs is to have low tariffs on nonmanufactured goods and somewhat higher tariffs on more highly manufactured goods. Typically, the American tariff structure will allow resources to enter with a low tariff, but when you move upstream in production to more finished goods, there is a somewhat higher tariff level. The removal of that could allow for some movement upstream, or greater processing of raw materials in Canada.

The fifth argument is that when tariffs are removed between Canada and the US, clearly Canada may have some greater advantage than other foreign countries in the US market because the latter would still be subject to US tariffs whereas Canada would not. There may be some trade diversion, if you like, in the case where a foreign company may now be supplying the US market. If the tariffs between Canada and the US were removed, Canadian producers might have an advantage that would allow them to displace other foreign countries in the US market. The reverse would also be true.

Mr. Knight: How do these arguments bear up under the experience during the Kennedy round? I think there were selected sectors or commodities where there was a reduction in tariffs on an annual basis, I believe two per cent each year. Do we know what the experience is? Also were there any other factors from a historical perspective that entered into it?

It might be interesting to know whether or not other events occurred subsequent to those tariff reductions. Were they increased again or did Canada do some subsidization of those industries to help them? Were any countervailing or other tariff or nontariff barriers put in place by the US?

Dr. Purchase: To answer the first question, those



studies are being undertaken by various groups. To take a look at our experience in the Kennedy and the Tokyo rounds of tariff cuts, what seems to have happened generally is that our exports of goods has increased and our imports have increased, sometimes in the same industry, so there appears to have been a greater specialization even within an industry. In other words, some industries have not disappeared and others grown. What has happened is that the industries seem to have become more international, where some product lines are imported and others are exported.

The other thing to keep in mind is that, while those tariffs would come down under GATT, manufacturing employment has grown in Canada, which is not the same as has been the experience in other industrialized countries where manufacturing employment has actually declined. Manufacturing employment here, as a share of total employment, has had a small decline but in absolute terms it has increased.

The auto pact is a good example of what happens under a certain highly restricted kind of free trade arrangement, whereby employment has grown quite substantially, as has investment, whereby trade has become two-way trade within the same firms even, where some product lines in a firm are produced in one country and other product lines in that firm are produced here in Canada.

I do not know that there is a definitive answer as to whether it worked or not. The evidence does not show it was a total disaster in the sense that it wiped out a whole industry or that it caused a significant decline in employment in all industries across the board.

Mr. Knight: Would data be available so that we could perhaps make an assessment ourselves? Indeed, that is what we are leading ourselves towards. There has been that precedent during both rounds of negotiations where there were industries where there was a parallel reduction in tariffs and perhaps we could take a look at the data over that period to see what has happened.

Dr. Purchase: We can supply you with some data. We may be able to supply you with other studies done on this thing.

Remember that in talking about the next round of trade negotiations, whether it is a multilateral round or bilateral with the US, the issue of tariffs per se, although it is tremendously important to some industries, will not really be where it is at, in my view. It will be a huge number of other issues that we have no experience with and will involve all these nontariff barriers and other issues related to regulation, the use of subsidies and so forth.

3 p.m.

That is a fairly uncharted area so that, while you can draw some conclusions from our historical experience, in a sense history is not going to be the only thing you use as a guide to the future because any future negotiations may well involve areas that have not been part of the past, particularly in the service trade.

Mr. Knight: Having grown up on Georgian Bay, I always thought it was wise to know at least a little about sailing before taking the boat into uncharted waters.

Dr. Purchase: I would agree.

Mr. Taylor: Unless it has a good motor.

How would you put this in the context of some broader thinking? I do not know whether you subscribe to some of the thoughts of Alvin Toffler in *The Third Wave*, John Naisbitt in *Megatrends: Ten New Directions Transforming Our Lives*, and Robert Reich's writings and so on. We talk about the change in our economic system, about mass-produced standardized production where it seems we cannot compete now, and about more customized production where they sit at production lines for longer and where there are specialized products and so on. How would you put that in a broader view in the context of both types of transformations?

Dr. Purchase: There is a great deal of truth in those concerns. I am sure there will be economists and others appearing before you who will argue that the old-line argument about economies of mass production is no longer as relevant as it once was. On the one hand there is consumer taste, but on the other hand there now are improved types of technology in plants that allow you to produce batches at a much lower cost than before, even though the production runs are short. There may be less disadvantage to a country with a small market than there was 20 years ago.

This is not a fully developed argument, but it is true that in a number of industries there are improvements in technology that allow them to produce on shorter production runs and not suffer from any diseconomies of scale. There are many people such as Robert Reich who argue that is really what the future is going to look like; there will be short production runs and flexible production.

There is an argument that it will require a great deal of change on the part of labour, which is traditionally organized around highly defined, highly specialized job descriptions. That really flowed out of Taylorism, named after Frederick W. Taylor, the guy who was really the father of time study and put it all altogether with respect to mass production. It started in the automobile industry.

A number of economists now are saying there is a major transformation going on in the plant. That presumably could reduce the disadvantages of having a small domestic market.

Mr. Taylor: Perhaps free trade is an absolute that may be an ideal for some, but probably is unattainable in real terms, all of us being mortals. I suppose freer trade is a more proper description. It is a question of how honest you can keep the parties and if cheating can be kept out.

Dr. Purchase: It is fair to say that "free" is an absolute that the real world does not approximate too well. What

is at issue here, in any case, is not just the economics. There are many other ways in which you can make a judgement and all are equally valid.

There have been estimates. There is a study by Professor Harris and Professor Cox which indicates that an estimated gain from bilateral free trade is roughly nine per cent of gross national product, which is not insignificant. This is for Canada, not Ontario. That would be three years' growth, so it is a significant number.

There are some cautions that have to be applied to all such studies. This one assumes early 1980 tariff levels so it has tariffs coming down from a somewhat higher level than what would really be happening. It does not consider the adjustment costs because it assumes there is no unemployment. In other words, it assumes people would be re-employed in different sectors and there would be instantaneous adjustments. The people would lose their jobs in one industry and go into another one virtually instantly. That would not happen. People who lost their jobs in one industry would take some time to find their way to another industry and there would be some economic costs.

It also probably overestimates some of the potential economies of scale in the auto industry in particular because many of these have already been achieved by the existence of the auto pact and so forth. Our main point here is that all studies, even one done by the Ontario Treasury, will have a caveat to go with them as to their reliability. None the less, they are all part of helping you in your deliberations.

There is another study done by Professor Hamilton and Professor Whalley which estimates the gains by our own free trade to be about 1.3 per cent of gross national product, which is a relatively small number. Again, however, they have assumed there are no economies of scale possible. What you will see from professional economists, and academic economists in particular, is a fairly wide range of potential gain. Many of them in the mainstream will argue that there are gains but the size of the gains will vary considerably. This is the only point of the slide.

You will also hear arguments about the advantages of bilateral versus multilateral negotiations. Many argue that a better route for Canada is the multilateral rather than the bilateral one. As this slide indicates, one of the advantages of multilateralism is that Canada could form alliances with other countries and perhaps, since we are dealing in an unequal relationship, there may be less cost to us in the form of concessions in multilateral negotiation.

3:10 p.m.

The other advantage of multilateralism is that it keeps trade open and relatively the same with all members of the General Agreement on Tariffs and Trade and discourages blocs, which North America would begin to look like if there were a bilateral free trade agreement between Canada and the US, in the same way the European Community represents a kind of regional bloc now. There



are some people who fear the possibility of the world going towards regional blocs that have essentially free trade within the region but begin to raise more barriers with respect to others.

To some degree, multilateralism discourages the US from dealing with other countries at Canada's expense. I understand we may have a situation, for example, on transit equipment. Canada and the US were prepared to include transit equipment in the GATT code on government procurement. The Japanese would not go along with that, so the deal did not go through. That in particular is an argument against the multilateral negotiation approach.

The GATT dispute resolution process treats countries as equals and it may not be possible to work out a bilateral dispute resolution process that would somehow have Canada being an equal to the US. These arguments are made in favour of multilaterals.

On the other hand, you will hear people say it takes too long to negotiate and implement a multilateral deal, that the track record on nontariff barriers is mixed or nonexistent, and there is the previous argument that Canada may not get the deals it wants to get because the US has to do deals with the larger trading partners within the context of a multilateral deal.

You do have to consider there are these two negotiating options open. They are not mutually exclusive, but many argue that since Canada is only a tenth of the size of the US, it is better for us to be dealing in a multilateral context than in a bilateral one. It is certainly one of the issues that has to be considered before entering a bilateral deal even if you believe that freer trade is a good thing.

Mr. McGuigan: How does GATT regulate the trading deals? Suppose a country makes a special deal with the US, does it have to offer that same deal to other members of GATT?

Dr. Purchase: On a free trade arrangement, no, you do not have to offer that deal. However, there are some types of deals under GATT that you do have to offer to all other participants.

One of the things about GATT is that many of its codes are more honoured in the breach than in the observance. Things exist that are not consistent with the GATT code. In some cases, they may exist because there was a grandfather clause; when countries signed up, they had this in place and they managed to be grandfathered in that situation.

In a free trade arrangement, if we were to do a bilateral arrangement with the United States, we would not be obliged to do one with any other country--we can do such an arrangement under the GATT rules--provided it applied to substantially all trade between our two countries.

Mr. McGuigan: We could have free trade with the United States and still have GATT rules with other people?

Dr. Purchase: Yes, we could, and we would still be governed by the GATT rules with respect to our trade with third countries.

The next slide deals to some degree with what we have talked about earlier, that the United States will have a very strong interest in services and what we get to on the next slide, the right of establishment. Clearly, the Americans perceive themselves to have a significant comparative advantage in some service industries, financial services in particular. They are very interested in having foreign nontariff barriers removed to their banking, insurance and securities firms.

In business services, the Americans will have an interest in accounting, engineering, data processing, information services and so forth. We will also have an interest in this, but relatively speaking, as we reflect on the numbers we saw earlier, they will have a somewhat greater interest in terms of the composition of their export trade.

Mr. McFadden: I am curious. One of the items you show here is "legal." How are they proposing to bring legal services here in view of all the regulatory provisions? I know some law firms have international affiliates. Is it that kind of arrangement we are talking about? Or what are we talking about?

Dr. Purchase: It would relate to legal services that apply to international law. We do not know, for example, that the United States would be interested in negotiating any particular thing on legal services; this is just for illustrative purposes to show the type of business service that is traded internationally.

Foreign law firms do business in some respects with Canadian firms. There may well be Canadian regulations that govern their relationships with business firms, and they have to involve a Canadian firm in the deal. For example, in the case of architects, a Canadian has to sign the blueprints, even though the actual service may have been performed by a foreign firm. Canadians have to be involved in it in some way.

There is a host of regulations, and this is where it becomes very complicated when we are talking about services. Many of our regulations with respect to those types of professional services restrict foreigners from supplying those services. Those regulations are there for reasons that may or may not be related to trying to keep foreigners out; they may be related to other domestic concerns we have with respect to regulating their activities.

3:20 p.m.

Mr. McFadden: I know one growth industry, with regard to Washington in particular, has been public affairs consultants. At least one or two Canadian companies have set up subsidiaries down there, with mediocre success, I gather. There are about 2,000 registered lobbyists and various lawyers in Washington and others in state capitals who get involved in this.

I do not want to belabour this, but the legal area seems to be a particular problem area. From what I have been able to observe, the normal process is for a Canadian firm to establish some form of corresponding relationship--not a partnership but a

relationship, because they cannot form a partnership per se--and to refer work back and forth. For example, if a Canadian company had a problem in Washington, the Canadian lawyer might go to Washington with the client, they might work together on developing a brief or participate in making submissions, but the Washington law firm or lobbyist would be the main contact, and vice versa: if an American company had a problem here it would retain a Canadian firm.

I am trying to visualize how this would come under any international regulation and whether there is any demand on either side for that to happen. I am not aware of any American law firms that have any interest in changing that, or Canadian ones for that matter. There are certain advantages in doing it, but I am not sure there is any demand, because if the experience of the public affairs companies is any indication, it would not be very productive any way.

I am just curious whether you have run across any demand from legal bodies, either in Canada or the United States, for inclusion of this in any free trade or other discussions.

Mr. Trick: On this subject, it is interesting that this is now a fairly contentious issue between the United States and Japan; it involves the sorts of representation you mentioned where American companies would like to bring American lawyers with them when they are dealing in certain legal or quasi-legal forums in Japan. If the Americans were interested in such an agreement with Canada, there would be a certain amount of interest in its own right, but it would also be a very valuable precedent for them when they are dealing with countries such as Japan. You may see it pushed on that basis.

Dr. Purchase: One of the things we do not know is what the United States wants in particular. Presumably the federal government may have some clear idea. If they enter into negotiations, we will have a very clear idea of what the Americans may be interested in.

You can see that the whole range of services, whether they happen to be professional or legal services, is an important industry. Having a right to appear in the courts of another country may have some advantages to you if you are a law firm of substantial size. You may well want to hire Canadian experts and have them appear in Canadian courts or before whatever quasi-judicial tribunals you want.

What we are saying here is that when we move into this area of services, we are moving into an area in which we are not sure what may be asked for or demanded. It can open up a huge number of areas that we have not experienced before. We have mostly focused on goods trade, which has been largely subject to tariffs of one sort or another. That is a relatively easy thing to deal with but does not usually go to the fundamental regulatory environment of the community in the same way that dealing in some services does.

Mr. McFadden: One thing is missing in this list, unless "engineering consultants" is meant to include it, is management



consultants. The figure I have from the Institute of Management Consultants is that their 700 members alone--and that would not be more than about one third of the management consultants in Ontario--have annual billings of \$100 million. That is not insignificant among 700 people. A significant portion of those billings--I am not sure of the percentages, because they have not worked it out yet--would involve billings outside Ontario, and a significant portion of those would be somewhere else in the world. Was management consulting left out on purpose, or was it just not put in as one of the illustrations?

Dr. Purchase: No, it was not left out on purpose; it is included in the data on trade and services that we showed earlier. What we are doing here on the slide is putting down a few words for illustrative purposes. We did not mean to exclude management consulting, because that one of the major growth businesses, not only in Canada but also in the United States, along with lobbyists; they are intertwined even.

These are some of the areas where we think the Americans will have an interest, but we are not the appropriate experts to tell you precisely what the Americans have on their minds or where they would want some concessions from Canada.

Mr. McFadden: What do we mean by "entertainment"? Does that include sports, or is it just classical entertainment such as theatre?

Dr. Welwood: It would include books, actors used in commercials, artists, musicians affected by Canadian content regulations in broadcasting, the recording industry, the film industry, book publishing and magazine writers.

There is a wide range of different actions by government that affect these industries, including subsidies of different sorts such as the Ontario Half Back program. Book publishers are exempt from federal sales tax. Printed material receives postal subsidies. There are Canadian content regulations in advertising and broadcasting. Imported movies are subject to quotas for use in TV programs, and there is an allegation of pressure on distributors to use Canadian films. There is a wide range of government activities to support these industries.

Dr. Purchase: We know this area will be a priority for the United States in the next GATT round, should there be one. The Americans may view doing a bilateral deal with Canada on some of these things as adding some leverage to their position as a trading partner.

When we are talking about services we are also talking about foreign investment, because it is very hard to deliver a service without having an establishment in the country. The Americans are very concerned about getting what they call "right of establishment," and there has been some legislation introduced in Congress to attempt to secure right of establishment from other countries.

That is where you negotiate since it is not a well-defined

international law that you should have right of establishment in another country. I do not think there is any precedent for that in international law, but none the less the Americans are concerned about having the freedom to establish an enterprise in a foreign country. Obviously they do not allow it totally in the United States. Certain industries are protected in the United States from foreign investment; defence industries are obviously one of them.

In those industries that are not protected in United States and often require a local establishment to effectively service the foreign market, they are interested in gaining that right of establishment. Financial services being one of the most critical, there was considerable pressure to allow US banks to establish in Canada, and the Bank Act of 1980 changed the Canadian law to allow restricted access of foreign banks into Canada.

3:30 p.m.

In addition to right of establishment, the Americans are focused on what is known as national treatment. Once they are in a foreign market, they wish to be treated as other firms in that industry would be treated. In other words, whatever the regulatory environment of firms in a particular industry, they do not believe American firms should be separated out for some special treatment.

One of the problems they had with the Foreign Investment Review Agency was that the undertakings in FIRA were a concern to them, not so much because of the actual impact on economic activity that resulted from those commitments but because they did not like the precedent that American firms locating in Canada would be required to do some research and development, which is a requirement, or to export or to have a global product mandate or to do any number of other things that were not a requirement for any other firm in that industry.

They do not want their firms treated in a different way from any other firm, and they would be interested in negotiating that.

In terms of the federal role on services, the federal government has responsibility for transportation. There is some delegation of responsibility for transportation regulation to the provinces--in trucking, for example--but where that enters into interprovincial trade, it is a federal responsibility. Patents are under federal control. Telecommunications, transport or data flow, broadcasting and investment restrictions on banks, for example, are all within federal jurisdiction.

Some of the provincial areas of jurisdiction in this relate to government procurements. Some financial institutions--investment dealers in Ontario, for example--are subject to foreign investment regulation by Ontario law. Licensing of professionals is subject to regulation of various sorts.

These are examples of areas, both in federal and provincial jurisdictions, where if the United States pursues its interests in service trade, things will have to be worked out, not only at the federal level but also with provincial governments.

Mr. Ferraro: The same would apply in the United States?

Dr. Purchase: Yes.

Mr. Chairman: I do not wish to interrupt, but I thought I would put this question to the committee at this stage. We did have a lecture before we started about the hardness of seats and so on. Is it the wish of the committee to carry on now until we finish or to invite Dr. Purchase to come back at an early date to complete his presentation?

Interjection.

Mr. Chairman: The question was, how long will it take? I do not want to rush you.

Dr. Purchase: It does not take me very long to go through the slides. It is just a question of how long the questions will take. I can go through the slides within half an hour.

Mr. Mackenzie: We can call him back if necessary, but maybe we could go through the slides quickly.

Dr. Purchase: On adjustment issues, the major study that has been done as to what kind of adjustment might be necessary, the Harris and Cox study, indicates something in the order of seven per cent of the labour force would have to move to another sector. That is not just switching from one firm to another in the same industry. That is moving from textiles to automobile products or something. There is a significant shift of activity. Their study shows the effects by sector.

In thinking about the adjustment of industry, you have to take into account not only the total number of workers who would have to move to another firm or industry but also who they might be. In many cases, it might involve older or unskilled workers. Some industries adversely affected by this might have a particular kind of structure of their labour force. Looking at textiles, for example, there are mostly women production workers with low levels of education, and they are predominantly older workers because the industry has not been growing.

There is not just the macroeconomic number which has to be looked at but in each case you have to look at the composition of the workers moving and consider the types of problems they might have in finding employment again.

Mr. Chairman: Are you suggesting some may even exit from the labour force?

Dr. Purchase: Some could exit from the labour force. Typically, in a plant shutdown situation, the workers will be older. If the plant has not been expanding, it has not been adding new workers. There is an old saying that the person who finally shuts off the lights is a 65-year-old. That is how plants are typically downscaled. The remaining people are usually the ones with the most seniority.



Also, you would have to consider the effect on single-sector communities. The options to move to another sector in the economy, while they may be there, may also involve moving from a community, especially one with only one sector that was adversely affected by the change. That involves some loss of the public capital already in the community if it is a significant move. We do not have estimates of how significant this would be. What we do know is that it is an issue to be addressed. All we are doing here is pointing out that this adjustment process would be a part of the new trade environment.

Similarly, we do not know whether any kinds of safeguards or transitional mechanisms would be negotiated, whether you could negotiate that the United States would move to an essentially tariff-free situation in five years and Canada would do it in 10, or that the United States would reduce its tariffs at twice or three times the rate we would, or what kinds of adjustment programs would be in place to deal with the inevitable problems of dislocation of some workers. All these conceivably could be the subjects of negotiation.

3:40 p.m.

Mr. Mackenzie: I do not think you can single out single-sector communities, although they would be most obvious. As we have seen in some of the northern communities, if it is a fairly large industry or move, it would have a decided effect in terms of the services that have been put in place for the people and the resulting costs that could accrue to a community as a result of the lower base it is drawing from.

Dr. Purchase: All these issues would have to be addressed in any negotiation or in any policy plan to deal with the fallout from an agreement.

On the adjustment issue, multinational enterprises may behave differently, but it is very difficult to predict precisely how they will act. Some conceivably will act to close their branch plants here. Others may move to increase their production here. Some may move to what is called a "world production mandate," where you get to produce the commodity for the world but you do not have the full corporate range of functions such as research and development in relation to it, advertising, sales and so forth. With what is commonly referred to as a "world product mandate," everything is given to the subsidiary with a full range of corporate responsibilities in the hands of the management of the subsidiary.

There is a wide range of options and many firms pursue different strategies with respect to their subsidiaries. It is possible there would be some consolidation of head offices in the United States. What we are not presenting here is a balance of opinion in the sense that we think it would be one way or the other, but we do think all these things are possible and undoubtedly all will happen.

As to Canadian enterprises, some argue that because they are smaller than multinationals and do not have subsidiaries in the

United States they would have a more difficult time adjusting, whereas a US-owned firm could stop producing some of its products in Canada and import the balance from the United States and achieve its longer production lines and so forth in Canada. The Canadian firm does not have the same option. In this context it would presumably have to build new plants to achieve the same full product line and compete in the total North American market.

Mr. McFadden: You refer to "multinational enterprises" and observe, "behaviour difficult to predict." It seems to me you have three types of companies that sort of fit in this multinational ambit.

I wonder whether what you have are binational enterprises, basically companies that operate in two countries--take Canada and the United States as an example--where essentially an American company has a branch or division here, but the main focus of strategy and decision-making is usually in the United States, with the Canadian company supplying a domestic market or, where it has a global mandate, some world market. The more typical thing, when it is binational, is that an American company has a subsidiary here, but in many ways the focus of decision-making is in the United States.

The multinational would be an American company that has subsidiaries here and elsewhere--it might be in five, six, seven or 10 other countries--but the decision-making is quite centralized.

I wonder whether there is not a third type of company, which would I term the international company, where the head office is almost irrelevant in the sense that local subsidiaries very much make their own decisions. There is a global strategy in the sense that they have global marketing and so on, but the local companies fit into a total pattern and are fairly independent. One example is IBM; essentially, it is all part of a family group, but they work quite independently on their national fronts.

That is why the whole area of international business culture is quite complicated. How they would react is difficult to predict. You almost have to break it down by types of industry, how they are managed, what their objectives are and so on. I guess that is why the adjustment issue is so complicated.

I do not know whether there is any analysis available. That is my observation from the odd study one reads that tries to differentiate between different types of companies. It seems to me the more international they are, the more likely they are in many ways to allow local management to show initiative and make decisions here. Where there is just a binational company, they tend to be very oriented towards the mother ship, because the mother ship has only one thing to worry about.

Dr. Purchase: That is absolutely correct. There are different models of multinational companies. Sometimes even within the same industry, they will have a different corporate strategy and a different corporate culture, where control is not centralized in a head office but sometimes is located in the subsidiary operations.

Increasingly there is a view that this may be a more productive way of doing things. Allowing managers more control over the total corporate function, not just production but also marketing and research and development of product, is a more effective way. Not all multinational companies, whether they are foreign-owned or Canadian-owned, have accepted that new view. That is why it is very difficult to predict which way everyone is going to go. Even within the same industry, because of different corporate cultures and different strategies, you may find firms doing different things.

It is not as simple as saying, "On net, all foreign firms will leave." It simply will not work out quite that easily. Any study done into this would have to break it down as you suggest, recognizing there are different classes of multinational firms, depending on both their internal structure and their strategy.

Mr. Knight: There is a fourth one that also has to be recognized, and that is the foreign, non-American-owned, multinational corporation which may have a division in Canada and a division in the United States. The ramifications of a bilateral free trade zone may have some bearing on their behaviour too.

Dr. Purchase: Moving to the next issue, in terms of securing US approval for an agreement, David will speak to this slide on Congress's role in an agreement.

Mr. Trick: Very briefly, this slide points out that a foreign agreement to be put into force in the United States, if it is to be effective, requires an awareness that Congress plays an important role as well. If the agreement were to take the form of a treaty, it would require the approval of two thirds of the United States Senate. If it takes the form of an executive agreement, then to implement it requires the support of a majority in each house of Congress.

The remainder of the slide lists probable groups in the United States that would have an interest in supporting or opposing an agreement. The service and high-technology sectors most likely would find themselves, on balance, to have an improvement in their opportunities; as a consequence, they would be interested in supporting it. The other groups listed there, labour unions, agriculture, specific industries now facing particular pressures such as hogs and steel, and state governments would be more likely to find themselves opposing it, although you would find exceptions in specific cases.

It is interesting to note that the labour and agriculture groups throughout the 1950s and 1960s tended to be free traders. In that sense they have reversed their position. State government opposition is based mostly on the fact that an agreement would probably restrict powers of state governments in certain areas, just as it might restrict the powers of the provinces.

Dr. Purchase: The next slide deals with some of the arguments you will undoubtedly hear against the free trade



agreement or what we call the greater access agreement under what we have labelled, perhaps inappropriately, political. There may be a loss of policy levers on the economy, such as economic development subsidies and regional development subsidies. It may require some change in industrial regulation, for example, allowing foreign firms to establish and grow to whatever size they can. Financial institutions would be a case in point.

Tax policy: To the extent it is used to subsidize specific industries--not general tax policy but specific industry subsidies that are delivered through tax policy--it may be subject to an agreement whereby both sides would agree not to do certain things.

Exchange rate: We have included it not because an agreement would have to be made on exchange rates but because exchange rates are an issue in the United States and many US congressmen and industries feel Canada has manipulated its exchange rate to give Canadians an unfair advantage in the US market. Exchange rates are always open to manipulation in one way or another; so it could become an issue in negotiations.

Foreign ownership: The extent of it in certain industries could be an issue both in Canada and the United States.

Resources pricing: The fact that resources in Canada are priced to benefit certain industries could be regarded as a subsidy and already subject to countervail. For example, Alberta's pricing of natural gas in the Alberta market might be an example of something that would have to stop.

Crown corporations: The role they play in the Canadian economy may be subject to negotiation. If they are subsidized, they may be regarded as unfair competition.

Environmental policy: Some types of subsidies to antipollution activities might be regarded as infringements of any trade agreement and therefore subject either to negotiation to make them similar on both sides of the border or to countervail. We do not know.

Social programs: Some senators argue that Canadian unemployment insurance is an unfair subsidy to some industries. They say some industries get lower-wage labour because people laid off for parts of the year are picked up on unemployment insurance. There is a labour force available to cyclical industries that is different from the situation in United States.

Another possible argument would be the perceived loss of national independence. Canada might be regarded as being even more vulnerable to US pressure. There may be a perception in the international community that Canada is more under the wing of the United States.

In cultural terms, there may be a loss of freedom with respect to Canadian content. There are already some problems with federal Bill C-58, which does not allow the deduction of expenses for advertising done on a US border broadcasting station. The Americans recently retaliated on that; so it is a contentious

issue between the two countries and relates to a whole range of things affecting Canadian culture. We mentioned books and magazines; these areas are contentious between the two countries.

In terms of some economic arguments against greater access, you have seen that the Canadian and Ontario economies are already highly dependent on the US market as a share of our income. If we were to become more dependent, we would conceivably be even more subject to swings in the US business cycle. As we become more trade-dependent in general, and certainly as we become more trade-dependent on the United States, we are even less capable of pursuing purely domestic policies that would offset that US business cycle. There is less leverage on domestic demand because of the large degree of imports and because so many industries are export-oriented.

This would be typical. For example, it is very hard to stabilize the British Columbia economy because of its enormous export orientation. Even if the government of that province were to try to stimulate domestic demand in some way, it would not have as great an impact as it would in another jurisdiction where there was less export orientation and less importing; one cannot affect foreign demand, only domestic demand, in that situation.

As to the adjustment issues we have already gone through, the suggestion is that since we are much more highly trade-dependent than the United States, there would be a relatively greater impact on Canada than on the United States, whatever adjustment took place.

We have already talked about the other issues.

The next slide speaks to the question, "Can existing access be made more secure?" It is not clear that Canada could gain an exemption from special protectionist measures, what are known in the United States as contingent protection measures. As I mentioned earlier, there is no exemption or escape clause to countervail duties in the US-Israeli free trade agreement that was signed recently.

The administration in the United States may link any attempts to get more secure access or greater access to a resolution of current irritants. A number of statements have been made by Clayton Yeutter, the United States Trade Representative, that indicate the United States is not likely to do a deal with Canada unless it gets some resolution of the softwood lumber situation, which it regards as a major problem. Steel is another area of concern, especially voluntary export restraints.

Pharmaceuticals is a major issue that is currently under consideration by the government of Canada with respect to generic licensing. The argument is that international firms, and US firms in particular, regard our licensing legislation for drug patents to be unfair to them. They argue that there should not be compulsory licensing to generics because they do not earn a large enough return to cover research and development spending.

The Eastman commission found they did little research and

development spending in Canada in any case. It did propose some lengthening of the period during which they would have absolute protection and some increase in the licence fee, but it proposed that all the money should go into a pool which would then be drawn down by the multinationals according to the amount of research they did in Canada.

That issue is still within the federal jurisdiction for determination. It is one of the irritants with the United States and I believe was on the list of things that were to be resolved at the Reagan-Mulroney summit meeting.

It is also possible that in the whole negotiation process, particularly with the heightened sensitivity of Congress to trade issues and so forth, it may draw even more attention to Canada.

The particular timing of this initiative may make sense because there is clearly more protectionist sentiment in the United States and the American dollar appears to be overvalued. On the other hand, now is not necessarily a good time to ask for a deal, when the other side is hurting or perceives itself to be hurting so much.

4 p.m.

Mr. Taylor: I guess we also cannot forget the percentage of trade that is exempt now, or at least tariff-free. We are talking about--was it 86 per cent?

Dr. Purchase: It is 80 per cent.

Mr. Taylor: It is 80 per cent. How far do you go? Also, when you compare the US-Israel free trade agreement and the US-Canada situation, I see them differently in that the Canadian and US economies are so close now.

There is a certain element of integration of our economies as opposed to the US and Israel economies. Whether it is steel or what have you, the number of times that steel might cross the border in different forms, and whether we are dealing with the same company or branch companies, we are dealing with two countries.

Canada has a special relationship with the United States, and maybe it cannot be viewed in the same way as the United States and Brazil or the United States and Taiwan. I do not know whether you have any comments on that.

Again, looking at it objectively and saying, "Okay, this is the world picture, and Canada is just another foreign country," at the same time, because of the development of our economies, it may be that there are differences and different ramifications.

Dr. Purchase: I do not think there is any question that in economic terms we have a special relationship with the United States, given the degree of integration of the two economies. That relationship, our geographic proximity and our relationship in a strategic sense are extremely important and different from those of most other US trading partners. I think that is all.



Mr. Taylor: When we were talking about security of access in comparison with, say, Israel, the percentage of trade that is now virtually tariff-free and the integration of the economies, I was wondering how big a gain all of this is going to be.

Dr. Purchase: It is true that any movement towards reduction of tariffs on goods is probably not as big as the reduction on tariffs we have already taken through both the Kennedy round and the Tokyo round of GATT. We may have already experienced a larger reduction through multilateral negotiations than we would experience with the United States, but I do not believe there would be any agreement that would talk only about tariffs. It would presumably involve other things that are not now the subject of agreements between the two countries or between any countries.

As to its significance--I do not want to use the wrong words here--it is quite true to say that in terms of tariffs alone, although it would be important in some industries, it is not all that great an issue. What is likely to be the more significant issue is nontariff barriers in services.

Mr. Taylor: Which is the conclusion of the third report of the federal Senate.

Dr. Purchase: Anyone who looks at this will probably come to that conclusion.

The other thing is that any bilateral agreement can obviously be terminated by either side; so in one sense no agreement can give you secure access, no matter what you do, because there is always political sovereignty involved in these things, and any international agreement can be abrogated.

My point would simply be to go back to a point I made a bit earlier, that secure access is something different from greater access and that we can have one without the other in principle. Whether you can negotiate one without the other, I am not sure. It is entirely conceivable that you could go to considerable effort to negotiate greater access, but not, as in the case of Israel, have negotiated what is secure access in the sense that you might still be subject to the harassment of countervail and so forth.

In terms of the key dates, Mr. Kelleher briefed the federal cabinet on this issue on July 3, to our knowledge. During July and August, External Affairs is consulting with business, labour and provincial officials on trade issues.

On September 5, which seems like an awfully hard date, given the nature of the release of these reports--it will be some time in September anyway--the Macdonald commission report is due to be released. We know from the papers that it will promote or come out in favour of the idea of some kind of free trade arrangement with the United States. There has been already some dissension from the labour member of that commission.

In September or October, the Kelleher recommendations on

trade negotiations with the United States will be made to the federal cabinet, and in November, as part of the Reagan-Mulroney summit thing, they plan to start the bilateral negotiations.

That is essentially the time frame we are looking at on this issue.

Mr. Chairman: Thank you very much, Dr. Purchase. That has been very helpful to us; we have all learned a lot and gained a lot today. I expect we may have to call on you again to clarify some things as we start to hear from various parties making submissions. I thank you and all members of your staff who were here today.

4:10 p.m.

Mr. Morin-Strom: I wonder if we can ask some specific questions that the Ministry of Treasury and Economics might be the best able to answer in the future for us. One that I am particularly interested in is tax revenues. You would know, particularly from Ontario's perspective, whether foreign companies selling in Canada are paying a fair share of tax revenues to the Ontario government.

Do foreign companies, let us say Japanese and Korean companies selling automobiles in Ontario, provide a proportionate share of tax revenues to Ontario to what we receive from companies that are actually producing and marketing here; in other words, the North American companies? Is there a risk of losing out from the government side of encouraging more trade and companies getting a competitive advantage by being able to avoid tax payments as compared to what Canadian-based companies have to pay?

Dr. Purchase: It is a question of whether that is related to the trade issue. I do not quite understand the relationship between the issue of trade and the amount of taxes paid by foreign firms in this province.

Mr. Taylor: It is a very simple question you can answer in a sentence and a half.

Mr. Morin-Strom: It is not a very easy topic.

Mr. Taylor: It certainly is not.

Mr. Morin-Strom: It is not a simple question, but it is a very important issue from the governmental standpoint. Most of the perspective we are hearing, particularly from economists, is this theoretical competitive advantage we are going to have in a free market which will lead to advantages in the allocation of resources and so on. Are we going to get the same tax revenue from a freer trade situation than we are getting currently or we would get under a situation of more Canadian content and more Canadian control of operations?

Dr. Purchase: I cannot answer that question. If you are talking about Japanese automobiles, there is only one plant, Honda, projected to be here. We do not collect corporate tax revenues from someone who is not here. That is the simple answer.

If the products are imported into the province, imports are not a provincial revenue source and we will not have any revenue from them except from the enterprises that sell and distribute those cars here. I do not believe we could provide figures of how much tax revenue we get from those firms that sell Japanese automobiles in Ontario.

Mr. Morin-Strom: In other words, you could not provide us with figures comparing what percentage of total sales revenue is paid by Canadian companies and multinationals in taxes to the Ontario government.

Dr. Purchase: I am not sure the amount of revenue generated from Canadian-owned companies versus foreign-owned companies operating in Ontario is relevant to the issue of trade.

Mr. Morin-Strom: You say duties and tariffs can be viewed as a substitute for the payment of taxes by companies that are selling but not producing in our market. The elimination of those is effectively a reduction of the tax base on those companies.

Mr. McFadden: Could I suggest something on this? There is a certain danger in our getting into that. Since we are such a large exporter and we depend so much on exports, would other countries take that approach to us? We might have the poorer net compared to those other countries. I just wonder where that would lead us. Are we going to say that a company exporting to our country should be taxed because it is not established in Canada, yet it sells to Canadians and maybes take jobs away from us, when, as these figures indicated yesterday, we are larger exporters than virtually any other--

Mr. Morin-Strom: That is hardly a reason for ignoring the question. We should know what the situation is so we can assess it and view whether it is relevant. My understanding from yesterday was that we have a net trade deficit right now. As well, I am quite concerned that unemployment insurance is being paid for solely by the companies that employ people in Canada, while those companies that import products, taking away Canadian jobs, are paying nothing towards the unemployment insurance program for our country.

Mr. McFadden: Are you talking about importers? For instance, car dealers here who import Hondas or Toyotas?

Mr. Morin-Strom: No. I am talking about Honda and Toyota themselves.

Mr. Chairman: An increased sales tax for importers? Maybe a different sales tax? How would we do it?

Mr. Taylor: We would have less trade.

Mr. Morin-Strom: I am concerned about whether multinationals selling in Canada are paying their fair share of taxes in this country.



Mr. Taylor: Now it is multinationals. That is different from what you are started off saying, as I understand it. You were working from the premise of freer trade and foreign companies doing more business in Canada but not having production facilities in Canada or in Ontario.

Mr. Morin-Strom: That is right.

Mr. Taylor: That is what you were dealing with. Now you are talking about multinationals. Is that how you define a multinational corporation?

Mr. Morin-Strom: Honda or Toyota I define as multinational, yes.

Mr. Taylor: You have to watch that logic, because you are going to end up where you will not have any trade at all, unless you would rather have something than nothing in terms of revenues.

Mr. Morin-Strom: I am not particularly advocating anything. I would like to have the information on the tax revenues from the ministry so we can make an assessment as to whether the tax payments are fair.

Mr. Chairman: Is there any sort of information like that available?

Dr. Purchase: No. I am not saying it is not conceivable that you could do it. I do not believe it is material to the issue of trade. While I can take the request back to my minister, and I can see some potential uses of it, I do not understand how it is related to the trade issue. If you wish, I will take the issue up with the minister about supplying that kind of information.

Mr. Chairman: It would be difficult to ferret it out, would it not?

Dr. Purchase: Yes, because it means searching through the tax statements of all the corporations filing tax in Ontario and distinguishing those that are what you might call foreign-controlled or foreign-owned from those that are not and adding up their tax shares. Then I do not know what you would compare it with.

Mr. McFadden: I think Karl is saying that with people who have no operation here, you would have to sort of quantify what they would have here if they were here as opposed to not being here and selling here.

Mr. Taylor: You are assuming they would be here then?

Mr. McFadden: Yes.

Mr. Taylor: That is a big assumption. You may not have the business at all. It is all very hypothetical, leading to nothing--and costly in the process. That is what would concern me about finding that type of information.

Mr. Chairman: Unless Mr. Morin-Strom takes exception to it, I do not think the committee is going to ask you to do that.

Mr. Morin-Strom: I will continue to pursue this with further witnesses. I am concerned that we are not getting a fair share of tax revenues from foreign multinationals and that moves towards freer trade will penalize the people and the governments and provinces of Canada by reducing the tax base that is available to them.

Mr. Taylor: That is an argument for less corporate tax on Canadian companies. That is interesting coming from your party. I am a subscriber to lower taxes, and the first thing you know I am going to be sitting next to you.

Mr. Chairman: Thank you very much, it has been very interesting.

Before we go, we had a discussion yesterday about meeting at 1:30 p.m., and we tentatively agreed to it for the rest of this week. You will note that you have been given a schedule of hearings, which we will be given on a regular basis and which will be updated as we schedule more witnesses.

Starting next week, we still have it at 2 p.m., because that was sort of the way it was left. Is there any strong feeling about 1:30 or 2 p.m.? Then at the moment our witnesses are scheduled to come at 1:30 tomorrow and then we revert back to 2 p.m.

Mr. McFadden: What do the blanks mean? The witnesses are going to be coming in, are they not?

Mr. Chairman: That means we have invitations out, but there have been no confirmations yet.

The committee adjourned at 4:22 p.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, JULY 25, 1985

Morning sitting





1

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Witness:

Wonnacott, Dr. R., Professor of Economics, University of Western Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, July 25, 1985

The committee met at 10:09 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Professor Ronald Wonnacott of the University of Western Ontario is with us this morning. This will be the first submission we will be receiving. I expect we will be receiving a lot during the next several weeks. Until now, the committee has been hearing briefings from the ministries.

The position of Professor Wonnacott is well known and I suppose committee members will have a lot of questions about it.

Perhaps you would go ahead and expand on your submission. The members have had access to one of your articles, Canada-United States Free Trade: Problems and Opportunities, a pamphlet that I understand you prepared for the Ontario Economic Council.

If the members would refrain from interruptions--which we have been used to doing with ministerial briefings--until you are completed, there will be plenty of time for questions thereafter.

Dr. Wonnacott: Your practice has been to interrupt for clarification rather than--

Mr. Chairman: Yes, but then we have been receiving briefings on facts as opposed to positions.

Dr. Wonnacott: I would be quite happy with that arrangement. Without getting into arguments on substance, but as a matter of clarification, I do not feel there is any problem with that at all.

Mr. Chairman: That is fine. We are easygoing here.

DR. RONALD WONNACOTT

Dr. Wonnacott: Mr. Chairman, it is a pleasure being able to express my views before this distinguished committee. I think my most useful contribution this morning can be to concentrate on the economics of this whole question of a Canada-US free-trade arrangement. In the process, I want to talk also about some of the great political issues that arise, and in particular, how our political independence is affected.

Just to review the current situation and why this has become an important issue in Canadian debate, we are, as is well known, the only developed industrial nation whose producers do not have secure access to a "domestic" market of more than 100 million population. In particular, do we not have secure access to one of

the three very large markets--the European Community, Japan or the United States.

At the same time, despite barriers to trade, we have developed tremendous trade with one of these markets, the US, to the point where about one fifth of our gross national product directly depends on our exports to the US. Simon Reisman, one of the fathers of the auto pact, mentioned to me the other day that according to his calculations we now sell more motor vehicles and parts to the US than we sell all goods to all other countries. That trade with the US is enormously important, and from the point of view of Ontario, the trade in automobiles is also extremely important.

That trade is now at risk due to protectionist pressures in the US, which I can go into in some detail. Those protectionist pressures have been developing over a number of years. They can be traced back in part to fiscal imbalances in the US. I can discuss those in detail if you wish, but for now, the point is that the Americans have a very large trade deficit that has generated a lot of protectionist pressure. Given the size of the fiscal deficit, it seems very unlikely that the American trade deficit will be relieved until that fiscal problem is substantially reduced. So the growing pressure in the US for protectionism is not something that is likely to pass.

We have this question of our trade being at risk due to these protectionist pressures in the US. What will happen to Canadian employment if market access to the US is reduced? That could be because the Americans take protective action directly against Canadian industries. We have examples of that occurring now. Even more serious is the possibility that the Americans may take action against other countries but Canada would be sideswiped by this. In other words, Canada is more dependent on the US market. When the US protects itself against a target country, Japan, Brazil, Spain, whatever, these restrictions may also embrace Canada to some degree. That would be more damaging to us than to the countries that are the American targets.

Our options in this kind of circumstance, in which continuing the present policy involves major risks--you have been hearing about the risks involved in a change in policy, so let me emphasize to you the risks involved in continuing the policy we have at present.

What are the options to the continuation of the present policy? One of the aspects of the present policy is pursuing trade liberalization multilaterally in the General Agreement on Tariffs and Trade. No matter how you define it, that is something we should sincerely hope will take place in another successful round. That is an initiative that Canada should support fully. There is no question in my mind that we want to do that. When I talk about other options, there is nothing inconsistent in those other options with the pursuit in the GATT of multilateral liberalization.

Mr. McGuigan: Could you enlarge on what you mean by "multilateral in GATT"?



Dr. Wonnacott: That would be another round similar to the Kennedy or Tokyo rounds, in which the major countries come together and agree multilaterally to collectively reduce their tariffs against each other. That is the kind of arrangement we not only should support but also simply cannot opt out of.

During the Kennedy round, to a substantial degree we did partially opt out on the ground that we were not a fully developed country. We cannot opt out of those kinds of rounds in the future. Our partners will not allow us to do so. They did not allow us to do it in the Tokyo round and they will not allow us to do it in the future.

If the Americans, Europeans and Japanese are reducing their tariffs in another round, we cannot opt out. The prospects of being a small outsider in a world that is trading more liberally is out of the question. I can go into that in more detail.

Mr. McGuigan: The use of the term "multilateral in GATT" confused me. If we go with GATT, does that not mean we have the same arrangement among all the 50 or so countries in that group? We cannot make one deal with Britain and another deal with Brazil; we make the same deal with the whole group.

Dr. Wonnacott: Yes, in the GATT round we would be locked into an agreement to reduce our tariffs, as the other participating countries would. Under the GATT articles, the possibility of a bilateral arrangement between two countries such as Canada and the United States is still consistent. Indeed, the European Community was formed using article 24 of the GATT, which allows countries to liberalize their trade bilaterally at the same time as they are involved in this multilateral process.

The problem with the next multilateral round is that it is risky. Given our present circumstances, it is too risky to count on. There is a risk it simply will not take place or, if it does take place, it will not be effective. Even if we do have a successful round, it will not deal with many of our problems. It will not give us the degree of access to a number of US nontariff barriers that is necessary to allow economic investment in Canada to exploit that US market.

What are the other options? Very briefly, a bilateral agreement with Japan has been suggested to get access into that market and increase our domestic market by that arrangement. One might also conceive of a bilateral arrangement with the European Community. Those are simply not on.

It sounds good to talk about a bilateral Canada-Japan arrangement. It has been promoted on the idea, "Why would you want to get involved economically with the world's silver medallist when you can have an economic arrangement with the world's gold medallist?" There is an assumption here that Japan is technologically more advanced than the US, which is questionable. In a number of respects it is and in other respects it is not.

An arrangement with Europe or Japan is simply not on for two reasons. First, any kind of free-trade arrangement, a bilateral

deal of this kind that excluded the US, would distort our present trade, even if there were no US reaction to that arrangement. Technically, it is called a cost-of-trade diversion. Some of our trade that is now going to the US would be diverted to this other partner, say Japan. That would involve an economic cost to Canada.

10:20 a.m.

I can explain that in about four minutes of hard work, but it is not necessary, because the second reason is even more important. The US surely would react to any Canadian bilateral deal with another country that excluded the US. The United States has historically been very hostile to the extension by the Europeans of free-trading arrangements to countries bordering the European Community, countries along the Mediterranean. That has been viewed by the US as being very costly to the US because it has been excluded from those arrangements.

Mr. Cordiano: Do you think that had any effect on Canada's failure to pursue a third option when we were pursuing that policy?

Dr. Wonnacott: There was nothing that could be done. The point is, if Canada and Europe or Canada and Japan became involved in a bilateral deal that excluded the US, the Americans would view this as, for example, the Europeans extending their preferences. They have extended them in the Mediterranean. They now would be viewed as extending their preferential system into the heart of North America, the largest and most important market of the US. That would be viewed with a degree of hostility by the United States that would vastly exceed its hostility to the extension of preferences into the Mediterranean.

Mr. McGuigan: It would trigger the Monroe doctrine.

Dr. Wonnacott: It would trigger a reaction in the US. If we did that, it could not be assumed Canada would continue to have access to the US market under present conditions. There would be a lot of changes in our access to the US market. The only question is how severe they would be.

Even more important than this is a third, overriding reason that option is not on: the Americans would react not only to the Canadians but also to the Europeans or the Japanese, whoever was the other party. That means the Europeans or the Japanese simply will not even consider any arrangement with Canada that excludes the US. That would put their very important market in the US at risk and that is far more important to them than any deal with Canada. That is why, when we had the third option being promoted by Canadians in Europe some years ago, it was a nonstarter to begin with. There was nothing the Europeans could do.

Mr. Cordiano: You are suggesting our sovereignty to deal with others is greatly restricted in the sense that our hands are tied and we are sort of pre-empting any other decisions we might make based on that assumption.

Dr. Wonnacott: Our sovereignty is not ultimately tied

even on domestic policies. Our government can do what it wants to do, but it has to look at the costs and the costs in this case would be enormous.

Mr. Cordiano: However, our major initiatives in the future, as I see them, will be in export trading with other nations. We are looking at the possibility of trading with the Pacific Rim to a greater extent. The other day, Mr. MacDonell showed us that our reliance on the US has grown over the years as far as our major trading partner is concerned and we are in a somewhat difficult position because of that. Our auto trade is quite high and we are largely dependent on that.

What I am suggesting is, if we are to reduce our risk, do we not have to look at other options for trading partners? We cannot do that as a result of some of these restrictions, if you will.

Dr. Wonnacott: We can do all sorts of things with respect to increasing our trade with the Far East that are within the present context of nonpreferential arrangements with those countries. What I am saying now is that a preferential arrangement that would give reciprocal free trade between Canada and Japan and would exclude the US is simply not on. If we want to take on an initiative for a free-trade arrangement with both the US and Japan, then the US would be a full participant and there would be none of the problems I am talking about. I am talking about a negotiated preferential arrangement of access to each other's markets by Canada and Japan. We can do an awful lot in terms of increasing our trade with Japan or these other countries without being involved in that kind of formal arrangement.

One thing we could do, without passing judgement on whether we should or not, is to eliminate the quotas on Japanese cars coming in. That is quite consistent. The Americans would have no objection to that. They could not conceivably object because they removed their own quotas.

Do you see the difference between stimulating trade within the present set of arrangements and legally setting up a preferential system with Japan? It is that second one, if it excluded the United States, which is simply out of the question. That, then, leaves the question of the one bilateral agreement which is politically feasible. The one way of increasing our domestic market to this large size is an agreement with the United States.

Mr. Taylor: I wonder if we should not have that four-minute dissertation that you mentioned--

Dr. Wonnacott: The four-minute--

Mr. Taylor: --talking about the first option, the second--

Dr. Wonnacott: Okay. Let me try to--

Mr. Taylor: I think you might have been bumping into that in responding to some of that.



Dr. Wonnacott: Let me try to do it in two minutes. If we had a free trade arrangement with Japan, which excluded the United States because that is our cheapest source of supply, a lot of things we are now buying from the United States, we would then start to buy from Japan because of a trading arrangement we would have with them. Because the United States, and not Japan, is our cheapest source of supply, there would be a cost to the Canadian economy. The argument is as simple as that.

We would be switching our purchases from a lower-cost source, the United States, to a higher-cost source, Japan. That would involve a cost to Canadians. You ask: "Why would Canadians do that? Why in the world would Canadians switch their purchases?" The answer is we would be able to get the things from Japan duty free.

We would not be getting the products from Japan because they are cheaper to the Canadian economy, but because we would be able to get them duty free. Individual Canadians would buy Japanese products rather than American products. This would involve a cost to the Canadian economy and the cost would be in the form of lost tariff revenue which was previously collected on these goods as they came in from the United States. That tariff revenue would be lost because the goods would now be coming in from Japan duty free.

It is a situation where the Japanese goods, because of the free trade arrangement, would appear to Canadians making the purchasing decision to be cheaper. From the point of view of the Canadian economy as a whole, Japan has a higher cost source of supply. There is a loss to the Canadian economy because the Treasury would no longer be getting the duty revenue previously collected on these imports from the United States.

That took maybe two-and-a-half minutes instead of four. It is not an easy concept but it is a very important one when such a large proportion of our imports come from the United States. It means there is an awful lot of that diverting that could occur.

Mr. McGuigan: There is another side to that which you did not mention. It seems to me that the gain with Japan in a free trade arrangement would be to sell them agricultural products. They have already closed that door. They simply will not allow us to knock out the 17 per cent of their population who are in agriculture. So it is a nonstarter in that area.

10:30 a.m.

Dr. Wonnacott: If geography, which is irreversible, and our geography is irreversible, has put us in a position where our natural trading partner is Japan, Europe or the United States, we have made the right choice. It is a choice we have not had to make, but I think it is fortunate from our point of view that it is the United States. The big reason lies in the case of Japan.

The United States is willing to take our manufactured goods in huge quantities. It is willing to accept these. It is willing to accept huge quantities of manufactured goods from everywhere,

Canada and other countries as well. That is the nature of that economy. The Japanese are not prepared to accept manufactured goods to the same degree. There are other kinds of problems with the European community, a lot of them centring on agriculture.

You are absolutely right. These are additional problems explaining why these other options are simply not on.

Mr. Cordiano: To compare a country like Japan to the United States, one would have to look at disposable income levels and there is no comparison between the two countries. You would have to say the United States has the much higher level of disposable income.

Dr. Wonnacott: All the analogies about elephants and mice aside, it seems to me that analogy is extremely unfortunate. Should we not go to the Olympics because the Americans are going to win more gold medals than we do? We go there and we win gold medals. In fact, we do better than the Americans. We do not say, "We are not going down to Los Angeles, because we are a mouse and it is an elephant." That analogy is a very unfortunate analogy.

If you are going to be trading with another partner, then you want that partner to be rich. You want that partner to have a large market. The larger and richer that market is, the better you are going to be able to do in that market.

Mr. Ferraro: If you go to the Olympics and you meet somebody in the swimming pool, it might not necessarily lose you jobs, but if you get into a situation economically with the elephant, it could result in the loss of jobs. Is that not a fact?

Dr. Wonnacott: I want to spend a few minutes in my formal presentation dealing with the question of employment. Can I defer that one?

Mr. Ferraro: Sure.

Dr. Wonnacott: That is a big issue and that requires a big answer. I am going to come to that in the normal course.

Mr. Ferraro: Your analogy just prompted that.

Mr. Cordiano: That brings about the other question. If we were to enter into a free trade agreement with the United States, then we would be in a sense forgoing all opportunities to expand our trade to other nations. Do you not think there would be some sort of hesitation on the part of other nations to do trade with us when we have the natural advantage of entering the US market?

Dr. Wonnacott: I do not see it. The question of other countries trading with us is going to be a question of commercial interest. It will not be dictated by the governments of these countries saying, "We are not too happy about Canada." It is going to be dictated by business decisions in these countries--

Mr. Cordiano: That is what I am suggesting.

Dr. Wonnacott: --as to whether they want to actually buy and sell from Canada. I do not see any reason why we should be pessimistic on this score at all, because Canada could become a better location in North America than it now is to do business. If a Canadian location has free access, not only to Canada but to the US market, Canada would become a more exciting place for other countries to do business. That is not just in the case of trade. Even more important than that is a question of investment.

Under the present system, other countries look at Canada and they say, "There are some advantages in going to Canada, but we better stay in that big market in the US. That is our choice. We go to that market." Now if you have a free trade arrangement with the United States in which there is convincing access by Canadians to the US market, then it changes the incentives of these third countries to invest. They are less likely to say no to a Canadian location as our access to the United States becomes more secure.

That whole issue is a question of making the Canadian location a more attractive one for investment to service the kind of economically efficient North American market. That investment incentive applies to American firms that are thinking of investing in Canada. In the past they have only been interested in investing in Canada, because the Canadian market has been protected. This provided them with an incentive to set up their branch plants in Canada to service that protected market. It is cheaper for them to do that than to jump the Canadian tariff.

Mr. Cordiano: They would have the incentive to stay in the US if they can service both markets.

Dr. Wonnacott: They are going to have less incentive--

Mr. Cordiano: There is a greater incentive that way.

Dr. Wonnacott: They are going to have less incentive to invest in Canada to service the Canadian market. They are going to have more incentive to come into Canada to service the North American market because from here they will have access to the US market as they have not had in the past. In other words, they will be able to set up an investment in Windsor to service the US market. For a lot of activities the 70-cent dollar, which they would project to be an 80 to 85-cent dollar to be on the conservative side, may be attractive enough to bring them into a location like Windsor to service the full North American market.

The incentive structure for American investment in Canada would change. The incentive for Americans to invest in Canada to service our market would be reduced. Their incentive to service the North American market and ship stuff back into the US would be increased.

The incentive of third countries to come into Canada and invest would be similarly affected. If they want to service the North American market they would have a greater incentive than they now have. That is not to say they are going to decide to come to Canada rather than the US. It would still be a very small



proportion. You are changing the incentive structure. Whether they come in depends on a lot of things, not just trade questions.

I would like to speak about this bilateral arrangement with the United States.

The big advantage is it would increase our present trade with the United States. Second, and very important as we have seen in the last few years, it would reduce the risk to our existing trade with the United States that would be disturbed by US protectionist moves.

There are two advantages that must be kept absolutely clear in all this. How would such an arrangement improve our present situation? The second big advantage is how it would prevent our present situation from worsening. Those are the two components of the economics of this thing.

I think the disadvantages centre on two major issues. First of all, there is the question of the short-run adjustment costs. In particular, would there be an unemployment problem? Second, would there be a compromise of our political independence?

I want to return to these two problems and address both of them in detail in just a minute.

First, let us talk about the advantages. The advantages of securing our existing trade and reducing the risk to our present markets are transparent enough. I do not have to dwell on these. Ask any Canadian firm that is now exporting to the United States. Ask the steel industry or any of these firms exporting to the United States about the importance of doing all we can to secure the existing market. It is not just a question of the income of these industries. It is a hard-headed question of continued employment in Canada.

I would like to spend some time addressing the advantages of moving from our present situation of large restricted flows of trade to even larger unrestricted flows of trade in both directions.

10:40 a.m.

A five to 10-per cent increase in gross national product is estimated. There is another potentially very important impact on GNP from doing a better job of securing our trade, but at the moment we are just talking about enhancing. The estimate is that it would be five to 10-per cent of our GNP. These were our estimates back in 1967, and these estimates have since been confirmed by estimates made by other researchers at Queen's. They tend to be pretty robust; it does not seem to matter much how you alter the specifications of the model; it seems to turn out that you are getting gains in this order. That is pretty substantial. It sounds like a small percentage of gross national product, but that is a lot of billions of dollars per year of additional income.

Why is that? Why are these gains so large? To some degree they arise from the familiar gains of specialization, doing what

we do best, the comparative advantage we have all studied at one time or another. Those gains can still be substantial, but the evidence is they are not as important as the gains from economies of scale. The economies of a large market, what we would get in a free trade arrangement with the United States, volume sales in the US market, would reduce our per unit cost of producing. When we reduce our costs, we increase our real income, our potential real income. That is the essential point of that argument.

A third reason is that Canadian producers who now export to the United States would no longer have to pay the US tariff. Right now they have to pay a US tariff on their exports to the US. They bear the burden of that tariff, they have got to meet a price in New York or Chicago. So the burden of that tariff, and it does not matter whether it is the importer or the Canadian exporter who pays it, comes on a lower receipt per unit by the Canadian producer. That has tended to be pushed back onto the Canadian labour force in the form of lower wages. The reason it goes on to the labour force, rather than on capital, is because labour is in Canada and can bear it. If you try to put that on capital, capital leaves. That is the essence of that argument. If you remove that US tariff, that tax at the border on Canadian output, then you would have increased wages possible in Canada.

The fourth advantage is we would be developing a more competitive economy in the process of competing in this large North American market. A more competitive economy would be better able to adjust to third country shocks such as surging exports from the newly industrialized countries. We would develop a competitive economy that would be living with and adjusting to competition. That would put us in a better position for what I believe will be the bigger shocks 20 years hence to the Canadian economy, which will not be coming from the United States, but will be coming from the rest of the world. We have got to think beyond the present arrangement, which is to become more competitive in North America, to being competitive on a world scale. Being competitive in North America is just one step in this process.

It is important to remember that protection is an attempt to insulate an economy from the necessity to adjust, and when you protect, you get what you pay for. You get an economy that does not adjust easily.

Those are the benefits of enhancing our trade. To better understand what is going on when we do liberalize our trade with the United States, we have to distinguish between the effects of removing Canadian trade barriers on US goods that now exist and the US removing those trade barriers that now exist on Canadian goods. It is very important to distinguish between the two. The first one is removing Canadian tariffs on US goods. If we remove our trade barriers, what are the effects of this? Remember, that is a policy we could take any time. We do not have to get American agreement on that. What is called unilateral free trade, one-way free trade, is something we could do any time. That is an option which is always open.

If we did that, we would have an initial loss of Canadian markets to imports from the United States. We would have a serious

short-run employment problem from this much tougher import competition. We would have a reduction in the exchange rate, which would then eventually make our resources more competitive on world markets and would stimulate our resource exports.

In the process of this increasing competition in Canada's industrial products, plus the stimulus from a falling exchange rate on Canadian resource exports, we would move in the direction of becoming hewers of wood and drawers of water. We would concentrate to a greater degree on resource extraction.

Mr. Ferraro: Excuse me, professor. I do not understand how having unilateral tariff reduction would reduce the exchange rate.

Dr. Wonnacott: We are okay as far as the point where we remove our tariffs. American products now come in and displace Canadian sales in Canada; in other words, our imports from the United States would increase. When our imports increase on a substantial scale, that puts downward pressure on the Canadian dollar.

Mr. McGuigan: We have to buy the American dollars.

Dr. Wonnacott: Yes. In order to finance these import purchases, for example, you are buying an American refrigerator where previously you bought a Canadian refrigerator, you have to buy the US dollars to buy that American refrigerator. You have to dump your Canadian dollars on the foreign exchange market to buy US dollars, which puts downward pressure on the Canadian dollar. We would come back into balance again at a lower exchange rate, with a greater degree of resource concentration and lower employment in manufacturing.

We would end up with a more competitive economy because we would have subjected ourselves to greater import competition, but we would have had a painful adjustment period. It is not a policy that I would recommend, but it is very important to understand this because in a lot of the scenarios set up by critics on what free trade with the United States would involve, this is what they are talking about. They are looking at getting rid of Canadian protection, and they are not looking at the other side of the coin.

The other thing that is common in these scenarios is to say, "If we had free trade tomorrow morning, then..." Nobody is suggesting free trade tomorrow morning. I want to talk about the 10-year adjustment period in just a moment. Nobody is seriously suggesting either of those policies, either unilateral free trade or waking up tomorrow morning without any tariff barriers.

Those are the scenarios you will be hearing about, and you should be prepared to discount them appropriately. They are only talking about half of the picture. They are talking about a policy nobody is recommending.

That bring us to the other side of the coin. When the Americans get rid of their barriers to Canadian exports, what are we talking about then? In many respects we are talking about the



opposite pressures that we talked about in the first case of Canadians removing their tariffs.

This would open new markets or larger markets to Canadian exporters to the United States. Therefore, it would generate employment opportunities in industry in Canada. It would exert upward pressure on the Canadian dollar. Our exports to the U.S. exert the opposite pressure on the Canadian dollar to our imports from the United States, so we now have two pressures here that are both being brought to bear. That means there is no clear evidence that our exchange rate would move strongly in either direction.

10:50 a.m.

The exchange rate would still be there to act as a buffer in the adjustment process. The exchange rate is very important. If the adjustment process were more painful than past experience has indicated it would be--and as European experience and these other experiences have suggested--it would not be very painful. But if it were, if there were unforeseen problems, the exchange rate is still there to act as a buffer. A fall in the exchange rate and then stimulating Canadian activity could act as a short-term buffer to get through a short-term period.

What I am talking about is that you ask yourselves, "What are the pressures?" It is not clear that, on balance, there would be pressures in either direction on the exchange rate. That would mean there would be no tendency for us to export more resources, which are now largely freely traded. There would be no stimulus for those resource exports.

We would have off-setting tendencies on employment and manufacturing, discouraged by the reduction of the Canadian tariff and encouraged by the reduction of United States barriers. There would be off-setting pressures. The best estimates are there is no clear indication we would drift towards a greater degree of resource-processing; we would if you are talking about removing only the Canadian tariff.

The estimates that have been done so far suggest two things. If there is any move, it would be towards more manufacturing and a greater concentration of manufacturing in Ontario. The benefits of access to the US market would exceed the problems that would arise from allowing US goods into Canada. The employment opportunities would also improve on balance.

That is when you are talking about overall pressures. That is not to say every industry's employment would increase. I do not want to suggest there are no risks involved. There are risks involved to specific industries. I am talking about the overall pressures on the Canadian economy on two issues. Would we move towards a greater degree of resource-processing? On balance, there is no evidence of that. What would happen to employment opportunities? There is no indication there would be a net loss of jobs.

The thing that would drive us towards becoming hewers of wood and that would seriously damage our employment prospects in

Ontario would be a failure to secure our existing markets in the United States. That could be damaging. Everything I have talked about so far--these neutral or better effects on employment and manufacturing and on the mix of our concentration--have to do with enhancing trade, moving us from where we are to more trade with the United States.

In an agreement that better secures our trade with the United States, the advantages in terms of industry and employment in Ontario and Canada are unambiguously favourable; there is no question about it. That is for employment in the steel industry or whatever industry you want to look at. There are risks, but as to the overall pressures from this kind of agreement, the best estimates are they would be favourable.

I want to talk a bit more about employment. You are going to hear a lot about employment, that people are going to lose jobs and that is a very serious concern.

Mr. Chairman: You say there is a move towards more manufacturing. The best estimates are that they would be favourable. What are these estimates? Is there anything concrete?

Dr. Wonnacott: There have been two major studies of this. One was our study in 1967, which we have updated in a number of ways. It was published by Harvard University Press. We did not address the question, "What would happen to employment in Canada?" We did address the question, "Would we concentrate more on resources?" Our answer was, "There is no evidence of that at all."

A more recent and ambitious study by R. G. Harris and D. Cox now has either been published by the Ontario Economic Council or is in the process of publication, and you will want to look at it. The motivation for that for Harris at Queen's was, "I do not believe the Wonnacott results." That was a study by me and my brother. "I do not believe their results. I am going to do a better, more ambitious job of estimating it." He essentially got the same results. He too was not addressing the question of employment. But when the employment issues have come up in the last year or two, we have both gone back to our estimates and asked, "What did they imply about employment?" In both cases the implications on employment were neutral or better; that is, if we enhance our trade, going from where we are to more trade with the United States.

The benefits to employment and industrial concentration in Ontario by getting into that United States market at least offset and quite possibly exceed the problems that would arise from allowing imports into Canada. You can see why. The Canadian market that is at risk is less than 10 per cent of the North American market.

The market over which we would now have a greater advantage is 90 per cent of the North American market. It is not surprising that our benefits in picking up 90 per cent of the market would exceed our problems in 10 per cent of the market. It is not that simple but that gives you some intuitive idea of what is happening in these estimates.

Mr. Chairman: Have any of these studies looked at Ontario in particular?

Dr. Wonnacott: I believe Harris has. You should look at what Harris says about Ontario. I want to come to Ontario, as well, in just a minute.

Mr. Taylor: I am not sure whether that study is dated or not.

Dr. Wonnacott: Yes, our study is dated 1967.

Mr. Taylor: I am thinking about terms of world transformations and larger markets; the mass produced and production type of thing that we hear written about by Toffler, Naisbitt and Reich, changes that are taking place on a world basis. The other aspect is that probably by 1986, 80 per cent of our trade with the United States would be nontariff anyway.

Dr. Wonnacott: You have two questions.

Mr. Taylor: That is right. I am pointing those out to you because they might be relevant to what you are going to say.

Dr. Wonnacott: Two questions. Our study is out of date. We have attempted to update it over the years. The way you update it, for example, is to say, "We originally estimated that the gains could be just over 10 per cent of Canadian gross national product." We have updated those gains to make them less than that now because since we wrote we have had the Kennedy round and the Tokyo round. We have had a lot of trade liberalization. Trade liberalization brings the gains from increased trade. Those gains should provide a basis for liberalizing your trade or evidence that you should be liberalizing your trade further, but at the same time may reduce the potential gains that are left. That is why our estimates now are back in the five to 10 per cent range.

Estimates by Harris and Cox are particularly interesting because they go at it in a different way. They attack the problem in a different way with a more ambitious model. They are using more up-to-date data.

That was your first question. Your second question was?

Mr. Taylor: The second one deals with worldwide changes with respect to North America. If you have free trade with the United States, then the United States is in the same difficulty as we are with respect to the single-world marketplace for a lot of its production. So you are opening up a market which is still not competitive with much of the world.

11 a.m.

Dr. Wonnacott: One does not pretend that becoming better than the United States would make us fully world competitive. As I said earlier in this presentation this morning, it is a first step. It would make us a lot more competitive. Because we would be competitive in the North American market--and as a consequence



more competitive--we would be more competitive in our third country trade. That is not to say we would not have difficulties.

One of the major difficulties is the inflated US dollar. The Americans are having problems and have a big trade deficit largely because of the very high value of the dollar. That dollar has been eroding in the last few months and more erosion is expected. As this happens, the American economy becomes more competitive. This is a real problem. You are testifying to an American group similar to this.

You are addressing a huge trade deficit. What are the Americans doing about it? Protectionist measures are being suggested. They are not going to solve the problem as long as there are macroeconomic pressures forcing a trade deficit on the United States. The only question is who is going to lose in the process.

I am halfway through my 20-minute presentation and our two hours are about half over. Maybe we are going at the right speed. Let me press on.

I want to emphasize one very important issue when talking about jobs. The reason for trade liberalization is like the reason for technological change: it is not to create short-run employment but to increase efficiency and thereby real income and exciting high-income job opportunities. Dealing with the short-run employment problem means talking about policies other than trade or technological ones.

A hearing on whether robots or technological improvements should be allowed into Ontario industry will get a lot of briefs telling you about the short-run unemployment that will result. Politicians who have the problem of deciding now might say they cannot allow this to happen.

The case against allowing technological change in the first stage of the industrial revolution was far stronger than the case for blocking technological change now. Because of machines in the first stage of the industrial revolution, a lot of the people were thrown out of their jobs and starved when there were no welfare policies. If you had been sitting on a committee in the 1700s, you would have said you were against having machinery and textiles. Furthermore--

Mr. Taylor: I would not impute that conclusion to all the committee members.

Dr. Wonnacott: Well, I would have difficulty. If I had to make that judgement--

Mr. Taylor: I am saying it is better to preserve some jobs rather than not have any if you are out of business, which you may very well be if you cannot keep up with the--

Dr. Wonnacott: The question of jobs is very important. I am trying to make a fundamental point. We are talking about a policy which would not shrink job opportunities. It is likely to

increase them. However, you must look at other things in short-run job issues. If you look only at the impact on short-term jobs, you would be saying "No" to the industrial revolution, technological change, the next generation of computers and the kind of economy that could compete and create high-income jobs in the future. You would be saying "No" to future jobs.

Mr. Morin-Strom: Are you not really saying that by increasing competitiveness there will be more jobs for robots and fewer jobs for people?

Dr. Wonnacott: No. There is no question there would be a lot of jobs for robots, which might be increasing faster than those for people. I am also addressing the question of what would happen to the jobs for people. The answer is they would be reduced.

Mr. Morin-Strom: If you looked at the GATT liberalization of trade over the last 10 or 15 years, the evidence in the western industrialized world would show unemployment has increased considerably during that period. I cannot see evidence that jobs would increase and unemployment would go down as a result of trade liberalization.

Dr. Wonnacott: There is a real problem in attributing all the pressures that have occurred in the last 20 years to the GATT tariff reduction.

Let me put the counter case to illustrate the difficulty. In the Depression, we had increased protection and a massive loss of jobs in the 1930s. Economists generally agree that a lot of it was attributable to the increase in protection that occurred then, but a lot of other things were going on at the same time. The US money supply was shrinking, the stock market collapsed and so on. You cannot say all the employment effect was due to what was happening to trade restrictions.

Mr. Mackenzie: I am not sure you can say the same thing on the other side. It is not simply a question of a pretty steady increase in the base levels of unemployment in our country and other countries. There are other trends. In the last four or five years there has been a trend to lower, not higher, wages. We have seen a fantastic trend to part-time work and the loss of all benefits. Up to 17 or 18 per cent of our population is in this kind of employment.

I question whether you can seriously say there is no evidence that the liberalization is part of the problem. I do not think all the answers are in on that. My mind is not closed but I want some answers. I have some grave doubts. I am leery of the statement that there is no real evidence that freer or more liberal trade is not going to hurt employment.

What are we trying to do? Do we want to look at the needs of our people for their future in their work and all the rest of it, or are we looking strictly at the dollars and the best way to promote the flow of goods on the international scene? I believe a hell of a lot more emphasis has to be put on what is happening to people and to jobs. That is the one element we are not taking a

serious enough look at. I do not think we can look at distribution even, in all this new technology and ability to produce. How the hell do some of the benefits get spread around a little better?

Dr. Wonnacott: I had the impression from 120 miles away that there was a pretty substantial concern in this location with jobs. I, too, am very concerned about jobs. As you try to sort out the evidence and sort out the effects of changes in tariff barriers, along with the other pressures that have been historically occurring at the same time, economic historians say the historical evidence, especially from the Depression, is that protection ultimately destroys jobs.

When you talk about not only your protection but the protection that is set off in your export markets, when you talk about reciprocal tariff changes, the historical evidence is that liberalization increases employment opportunities and protection reduces them. That is the historical evidence from a lot of countries.

This morning I have been addressing the pressures that would exist at present if we were to go into a free trade arrangement with the US and trying to assess the relative pressures on employment, from the standpoint of the loss of employment from increased imports and the opportunities for employment from increased exports. That is not a historical study. It is addressing the question you have to address and that is, what would those pressures be on balance?

Mr. Morin-Strom: It is not only a question of the balancing of the number of jobs created versus the number of jobs lost. It is not just a case of trading off one person for another person. We are talking about hundreds of thousands of people who potentially could be losing jobs they have had for their lifetimes.

They do not have the capability to transfer easily to another job. They may not be located in a community that may gain jobs. It means complete disruption of communities and families in this country. It is not as simple as taking a balance that we will gain one million jobs across the country and we will lose 975,000. The 975,000 who lose their jobs are real people. You cannot trade off one against another.

11:10 a.m.

Another question is whether the jobs we are going to gain are going to pay as well as the jobs we lose? Are we going to be gaining part-time jobs? Are we going to be getting low-income jobs? Very often competitiveness in the business sense means replacing high-income jobs with low-income wage earners.

Mr. Chairman: We can add to that, are the jobs going to occur in Ontario or elsewhere? What about the loss of capital, too, as industries close down?

Dr. Wonnacott: Ontario is the most likely location to pick up jobs because it is the best location for servicing the US market.



I want to try to get at some of these things. These are very real concerns and I am very much in sympathy with your observations. The difficulty is that when you are making policy, you have to deal with very difficult issues.

First of all, this is not the only thing that has been happening. I would be happy to talk to this committee for four hours some afternoon about the reasons we have had a lot of pressure and we are getting a lot of wage erosion from the shift to part-time work. That is not so much due to the Tokyo round cuts that have occurred since 1980 as to the macroeconomic pressures that have been generated, largely in the US, which have put tremendous pressure on industries to cut costs. This has been a process not only of deregulation but also of macroeconomic pressure that has generated pressure on industry. That has dominated the Tokyo round cuts that have been occurring in the last two or three years. If you are talking about that difficulty, it seems to me one wants to be very clear as to where the problem has arisen.

Mr. Cordiano: It is a question of having larger economies of scale in a free-trade agreement. Most would agree with that. In this whole discussion of technological change and larger economies of scale, companies would tend to go to mechanization, the use of more robots, etc., meaning fewer jobs. That is something that has to be addressed. You are talking about what happens over the short term, in a sense. Where would Canada gain jobs in areas that would be labour intensive? Where would we be able to gain those jobs?

It seems to me that in the traditional manufacturing sector they were not moving towards more labour-intensive industries. Those industries are not moving towards adding labour, but adding more capital equipment. From where are these jobs going to come? From what sector are they going to generate that kind of employment increase? I have a real concern that it may not be as easy to attain awards in this country as it would be in the US. I could see that in some of their sectors they very easily would increase employment opportunities in various other industries that are now evolving and that will be the industries of the future. But are we at that stage?

Dr. Wonnacott: Why would they not be available to us in a free-trade arrangement?

Mr. Cordiano: Because we may not be at the same level the US economy is at and developing those kinds of industries as rapidly as the US is. Therefore, we are going to see jobs in areas where we may not be able to realize those jobs in the future in this country because we may not be as technologically advanced. There is a relative offsetting factor there that concerns me.

Dr. Wonnacott: I have difficulties with the idea that we should be necessarily searching for labour-intensive jobs. The whole process of economic history over the last few hundred years has been one in which economies have moved towards jobs that are less labour intensive. That is the story of mechanization, that is the story of technological improvement, and we are still involved

in that process. Over the last 200 years, we have been able to generate jobs through activities that are not labour intensive. But generating enough of these activities, generating fast enough growth in these activities, it seems to me, is what we want to continue to do.

Mr. Cordiano: Let me present this case. The service-type industry sector is very labour intensive. We see a rapid growth of service industries and of jobs in those areas. I argue that in the US the growth of those jobs would far outstrip what we could do in the service sector in this country.

I suggest there is a substantial difference between the two countries in their ability to create jobs in those sectors because the US has far greater resources at its disposal for research and development.

Dr. Wonnacott: I have been trying to sort out the area of agreement here. I agree that you have more research and development in the US. Again, we are talking about a proportion of the gross national product because we can talk about them in comparative terms. If we talk about them in absolute terms, we cannot make any sense out of it.

They do put a greater proportion of their reserves into R and D than we do. It seems to me that one of the reasons it occurs is that R and D is a very heavy overhead expense. If you are operating in a large market, with the opportunity of selling a large volume of output, you can justify a lot more R and D for this overhead expense. You have more units of output over which to spread it. If you have a market of only a million people, you cannot engage in R and D. You do not have the volume over which you can spread these costs.

Our problem with R and D, though not the only problem, has been the fact that we have been producing for the smaller Canadian market at lower volume, which will not justify the kind of R and D expenditures necessary. If you get into a market in which Canadian firms can service the US as well, the high-volume market, the higher degree of R and D expenditures can be justified.

Mr. McGuigan: I agree with both speakers on the implications of what free trade can do to us. It seems to me we are talking about the political and social changes that would have to be offset if we went into free trade. We should include that in further discussion while we have Professor Wonnacott here.

Mr. Taylor: Whether we want to do laundry for a living is something that we could discuss at a later date.

Mr. McGuigan: It is very important.

Mr. Mackenzie: It is the best part of the reason for the committee.

Mr. McGuigan: Yes, but we have to make tremendous changes in hours of work, part-time work, adjustments and so forth that are really more political than they are economic.

Mr. Cordiano: My question centred on the economical factors that come into the picture when we are trying to discuss relative advantages of the state of the economy in Canada versus the state of the economy in the US. Would you not agree the US has a much more advanced economy as far as moving into these new areas of technology is concerned?

Dr. Wonnacott: That is one of the reasons they can spend more on R and D. That is very largely a function of the fact that we have been operating in the Canadian market.

Mr. Cordiano: I am talking about the short-term transition period you brought up. Considering the dislocation, the hardship and the relative disadvantage that we face, I am not so sure we can overcome that transition period in that time.

Dr. Wonnacott: I want to address that when I talk about the timetable for getting into this because we are talking about doing something over a 10-year period. I also want to address a lot of very important issues that you raised. I want to address one of them.

11:20 a.m.

If you try to ensure that existing firms, and, even more broadly, existing industries, will not be allowed to contract because of the kind of concerns you express, then you will have a real problem 10, 15 or 20 years down the way of an economy that is locked in to industries that have low productivity, that require support of various kinds and that are not only very expensive to the taxpayer but also expensive because they pay low wages. In other words, declining industries are a problem. If you commit yourself to not allowing a substantial reduction of employment in those industries, ask yourself where you are going to be 10 or 15 years down the road.

The alternative is to say: "I want to exercise every ounce of compassion, not in propping up an industry or a firm but in subsidizing the labour, the people. I do not want to subsidize a firm. If I subsidize a firm, I may be subsidizing plain mismanagement by the managers and the owners of the firm. I want to subsidize the people who are being hurt by this adjustment process."

It seems to me there is an important message here, that as we allow an economy to adjust, to respond, to become competitive, to generate the future exciting jobs that are necessary, we should also be devoting an awful lot of effort to providing guarantees to the individuals concerned who may otherwise be paying most of the burden of this adjustment that is taking place. My recommendation would be to subsidize, to have programs that provide the necessary subsidization of factors in terms of retraining and income during a retraining period. That is the way you want to exercise compassion and also to keep an economy that is competitive.

Mr. Knight: Does your theory not break down once you suggest subsidies? Does that not suggest there may be a case for countervailing on the part of the US? Are you not talking about



some nontariff barriers they might take advantage of?

Dr. Wonnacott: That is a very important concern. We have that problem right now and we are going to have to address it in any negotiation with the US. What is the reach of countervail? I am suggesting a way of exercising compassion and concern in a way that will be beyond countervail.

Incidentally, through an adjustment period there has to be an appropriate suspension of countervail to assist specific firms, it seems to me, to provide subsidies to Canadian firms. This can extend through a 10-year period, however, during which it is understood by the Americans that at the end of that period countervail will come back into force and will then be actionable against firms that are receiving government assistance.

I hope in the negotiations--and I think this is an important part of the negotiations--you can define the reach of countervail so it includes subsidies to firms that are exporting and are creating damage. Incidentally, you can do an awful lot of subsidization within that restraint because countervail requires that exports do a lot of damage in the US. The countervail reach is going to be applied to firms anyway, which is the nature of the beast, but would not be applied to subsidies to factors.

In other words, you have an agreement in which you can exercise your compassion this way by subsidizing the factors. You are not going to be able to prop up and subsidize your industries under either a free-trade arrangement or the present arrangement. You are talking about the problems with the present arrangement, under which we are subject to countervail and our subsidies to firms that are in trouble lay the grounds for countervailable action later. I am suggesting an escape from this difficulty with the kind of subsidization program that, from the point of view of our own isolated domestic economy, is a more appropriate way of subsidizing in any case.

Mr. Knight: But it requires a commitment and agreement on the part of the US to go along with that kind of relief for that period.

Dr. Wonnacott: That is correct.

Mr. Knight: The administration in the United States is free-trade oriented, but the rest of the U.S. economy is protectionist-directed. Do you really think, with a bilateral trade arrangement being negotiated around the time the Tokyo round ends in 1987, that the climate is appropriate and realistic for something such as that to be achieved?

Dr. Wonnacott: It is better than it has been for the last 25 years. The climate now is better than it has been. It is not as good as it was six months ago, and it is better than it will be six months down the road. It is a better confluence of circumstances than we have had in 25 years.

Mr. Knight: That is a judgement statement. It is not necessarily good though.

Dr. Wonnacott: That does not mean it is going to guarantee anything, but we have to decide what is in the national interest, no matter what we negotiate. In any international negotiation, one cannot guarantee success. You decide what is in your national interest and you try to negotiate it. It is not guaranteed we will get a deal out of the Americans that will be acceptable, but I think the chances are very good.

You want to exclude medicare, for example; all these programs. They must be excluded from countervail. I do not see any great difficulty in doing that, but it seems to me this is one of the sticking points on which the Canadian negotiator should be prepared to say, "This is as far as we will go."

This would then provide you with the kind of an agreement that is going to give you the appropriate exercise of compassion in the Canadian economy; an agreement which will not allow us to subsidize because we are not, by the very nature of things, allowed to do an awful lot of subsidization under the present system.

Since I have done 10 minutes of my address, could I spend the next 10 minutes finishing it, because you are going to have a lot of questions about what I say in the next 10 minutes. Could I keep going and exercise that ability to finish here?

Mr. Chairman: We will hold off questions.

Dr. Wonnacott: Even if trade liberalization were to have some unfavourable short-run effects on employment, it is a policy that you should seriously consider because of the prospects it offers for more and better jobs in the longer term.

There is no evidence that premise is true. There is no evidence it would have this adverse effect on employment. It is unlike technological change. In the case of technological change, the expectation is that people, on balance, get displaced by technological change. It is still worth doing because you get better and more job opportunities in the future. The same is true of trade. The difference is that with technological change you do not have the kind of neutral or better employment effects that you would have under trade liberalization.

We want to harness a lot of our concerns with respect to setting up an interim arrangement which will get us through this period. We are now talking about a timetable that would start, at best, in 1987. It will probably start even later than that. That means if Canadian tariffs are being reduced by one per cent a year over a 10-year period, we are talking about an adjustment that would be taking place through the 1990s rather than the 1980s. If we get seriously involved in a commitment to do that, it means the problem from a business point of view will not be so much losses on existing assets, but it will be replacing those assets as they depreciate with a new generation of capital equipment that is pointed in the right direction. That is our big problem.

11:30 a.m.

If we have a one per cent per annum cut in the Canadian tariff, is that going to be greatly noticed in the world in which exchange rates are gyrating as they are now gyrating? Exchange rates may change, and that changes the competitive position of a country, by 10 per cent, 20 per cent or 30 per cent in six months.

We have had Tokyo cuts in the last five years of tariffs. Those have not been the prime problem of adjustment. The prime problem of adjustment has been exchange rates which have changed by 10 times that, 15 or 20 times that. Those gyrating exchange rates are telling us that the unexpected shocks we are going to get for other reasons--like surging exports from the newly industrialized countries, like changing oil prices, like US macroeconomic policy imbalance--will dominate the changes we are facing because we are moving into a slow, deliberate, well-planned process of liberalizing our trade with the United States.

As I said before, our number one priority should be to develop an economy that is internationally competitive and can adjust to such outside-North America shocks and a Canadian-US bilateral agreement is just a reasonable first step.

What effect will this have on Ontario? Have I talked about Saskatchewan this morning? I talked about Saskatchewan outside here at five to nine, and I talk about Saskatchewan a lot, and I can never remember who I have talked to.

Mr. Chairman: We have not heard anything about Saskatchewan.

Dr. Wonnacott: Okay. As a preamble to what happens to Ontario, let us look at Saskatchewan. Saskatchewan gets unambiguous gains from free trade with the United States, because it gets lower prices, lower costs, on goods from the United States for which it has previously paid higher prices because it was getting them from us. It has no industry at risk from import competition. It has nothing but potential gains, no potential costs or losses. It unambiguously benefits, and Saskatchewan is in favour of free trade.

What about Ontario? Ontario gets--

Mr. Chairman: Does Saskatchewan not risk losing some agricultural product trade to Pacific Rim countries in that we are becoming more closely involved with the United States?

Dr. Wonnacott: I cannot see why it would. It has problems with Japan in terms of agriculture already.

Mr. Chairman: Those countries that are buying wheat over there might be arguing that there is an imbalance of trade right now. They are buying more than they are selling to us. If we go into a bilateral agreement with the United States, it looks as if we have permanent plans to do that, and they may look elsewhere. They may look to Argentina for their agricultural products.

Dr. Wonnacott: I have not looked at those balances, but



I know last year, the last time I looked at the Japanese-Canadian balance, we were running a trade surplus with the Japanese. There may be a concern here. I guess my reaction would be that it would be a secondary concern. I cannot quite identify it at the moment as even that, but I cannot see why it would be a big incentive for them to change their purchases or sales.

However, if I can go on, how would it affect Ontario?

We would be getting lower prices and lower costs with a free trade arrangement. We would be getting a major opportunity for new export sales to the United States as the US tariff comes off. That opportunity for export sales to the United States would go to Ontario, not Saskatchewan. Saskatchewan, whether it is in a free trade arrangement or not, is not going to be a centre of industry in either case. Ontario is a potential centre of industry in a free trade North American economy. We would have the opportunity for these sales to the United States.

The potential benefits for Ontario far exceed the potential benefits for Saskatchewan. However, there is a problem in the Ontario case; that is, adjustment would have to take place in Ontario and there would be risks to the present pattern of employment in Ontario. We are not sure what would happen in the reallocation of the labour force and so on.

Ontario has great concerns about this initiative. It has concentrated on the risks. It has also been fairly sensitive to special interest groups that feel threatened by it. Also, in terms of my earlier point, in Ontario we think of free trade as just getting rid of Canadian barriers and we do not think enough about the advantages that would come from getting rid of US trade barriers.

This means there are both benefits and potential risks for Ontario, but when you look at the two of them together the best estimates are that the net benefits to Ontario would substantially exceed the benefits to Saskatchewan. That is a real paradox. Ontario is likely to benefit more than Saskatchewan, but because these benefits are ambiguous and because risks are involved, Ontario is taking a much less sympathetic view to this issue.

I think it is important to compare Ontario's position with that of Quebec. Quebec is in the same position as Ontario. It gets a lot of potential benefits through access to the US market. It also has risks, and risks that are greater than Ontario's. Why is Quebec more sympathetic to this idea than Ontario when the risks Quebec faces are greater than the risks faced by Ontario?

Ontario is my province and I can speak frankly. It seems to me that before Ontario takes a negative view of this initiative in response to vocal, special interest groups, it should look to the broad provincial interest and the broad national interest.

Historically, Ontario has built an industry by inducing other provinces to pay an unnecessarily high cost for manufactured goods through the tariff. That is water under the bridge. However, does Ontario now want to attempt to block a change in that

traditional system, a change that would greatly and unambiguously benefit those other provinces and a change that, furthermore, is likely to benefit and provide even greater net benefits to Ontario?

It seems as though other provinces have lost from our traditional system of protection and Ontario has gained. I am suggesting other provinces have indeed lost from our traditional system of protection, but Ontario has lost even more. We have the opportunities south of the border that we would have had and enjoyed, but have not had access to because that border has barriers across it.

The last point is the sacrifice of political independence. Would we sacrifice our political independence? In some sense, it is true of any international agreement that there is a sacrifice of a country's political independence. That is true of security agreements and mutual defence agreements. It is true of the General Agreement on Tariffs and Trade. It is true of any of our agreements. We give up something to protect our interests by forcing one of our partners to give up some of its political independence.

11:40 a.m.

In the case of a Canada-US free trade arrangement, we would be giving up the freedom to protect our market in exchange for a US commitment not to protect its market against us. We would both be giving up some degree of political independence. That is in our interest in GATT and it would be in our interest in a Canada-US free trade arrangement because it would do two things. It would allow a United States president to simply say, when he is subject to a protectionist appeal from a very strong domestic interest group: "I am sorry. I sympathize with you. I know you have problems. If my hands were not tied, I would do everything I could for you, but there is nothing I can do because it violates a treaty commitment." That is what we want.

We want to have a U.S. administration that can simply say: "I cannot touch that. That is covered by a treaty commitment. It would be in violation of a treaty commitment." The problem areas for the United States have to do with steel and automobiles. In the case of automobiles, we have been running a surplus with the United States. The automobile sector has not been one of the issues of contention. It has not been a crisis issue; it has not come up. It is covered by a treaty. These other areas not covered by treaties are always coming up on the floors of Congress.

I would like to see our trading arrangements with the United States built into a treaty which the administration could say could not be violated. I do not want to have our disputes with the United States settled on an ad hoc basis on the floor of Congress because we see what happens when they are subject to that kind of determination.

That is the first advantage. A U.S. president who can say: "I cannot do that. I cannot block out Canadian exports because it would violate a treaty."

The second and more subtle advantage would be that it would give a Canadian prime minister an ability to say he cannot accede to a domestic interest group seeking protection in Canada because that would violate a treaty commitment by Canada. That might be a domestic interest group which he would otherwise be unable to resist. In other words, a treaty commitment like this frees a Canadian government better to pursue the national interest in opposition to special interest groups that are seeking protection.

In that sense, it gives our government greater political independence to pursue the national interest. The question of independence is a very complicated one. It is not clear to me that our independence would be eroded. It is true that our trade with the United States would increase. We have seen that spectacularly in the case of automobiles.

It also seems true, superficially, that when we are trading more with another country, we are more subject to pressure or influence from that other country on political issues; support in Vietnam or Central America or wherever the support might be. Mitchell Sharp put it more strongly, saying the threat by the United States to abrogate could force Canada into a situation in which we would be under enormous pressure to tailor our political foreign policies along the lines the Americans would be comfortable with.

That argument is overstated because there would be huge costs to the United States in threatening to abrogate or of abrogating a treaty. There would be huge costs to the United States in its credibility when negotiating with third countries. Really enormous costs would deter the Americans from doing this or from even threatening to do this. Why should they do that when at present they can, without that cost, exert enormous pressure on Canada?

Here is the way they could do it: They can simply wrap themselves in the GATT flag. "No more preferences granted to Canada. We do not give preferences to anybody any more. We believe in multilateralism, in the principles of GATT, and nobody gets preferences or special treatments in our market."

As the US introduced protectionist measures, such as the measures in steel, Canada would get no special treatment. Canada would be constantly sideswiped by every American protectionist measure which would now be nondiscriminatory providing no special treatment to Canada. We would be in a constant situation of appealing in Washington for relief, a situation in which other political issues would be always on the table, and compromises to Canadian political independence--independence of Canadian political actions on questions like Vietnam or Central America--would be always implicitly invited.

They can do it now much more effectively than they could do it under a treaty. To abrogate a treaty would be a very costly, diplomatic thing for the Americans to do. They do not need it.

My final observation is that this will not solve all of our problems. As I suggested earlier, some of your concerns are



related to other much more substantial pressures than the kinds of changes we are talking about here.

We are going to have conflicts, and we are going to be resolving disputes with the Americans from now until the end of time. Our geography is irreversible. That is our natural market; it is a very rich market, and there we are. That is going to be true inside or outside a treaty. In part, this would force us to set up an appropriate dispute mechanism. This would be a reasonable first step.

It is true that this would have been a reasonable step to take at any point in the last 20 years, but today, when the alternatives involve such substantial problems, it seems to me it is an even more reasonable approach to consider.

Mr. Knight: I have a couple of questions, if I might. I was interested in your initial comments, professor, on the bigness of the US market being a benefit to someone looking towards a free trade partner. That bigness also begs some problems, I suggest. What would your comments be on the hypothesis? You mentioned the hostility that the US would bring to any attempts on our part, or of anybody, to secure preferential treatment in the way of a bilateral free-trade area with another country. Perhaps that hostility would not be minimized if we were talking about, not bilateral trade alone, but trade preferences, when at some time we had a free-trade treaty with them. That size may ultimately end up with us--although we had negotiated a free-trade treaty--having a natural common market as far as our own ability to negotiate tariffs with third countries is concerned.

As you know, theoretical discussions have indicated that an ultimate progression in a common market is towards political union. My concern is not so much a political union as much as political leverage.

Dr. Wonnacott: What studies are these that show that the common market leads to political union?

Mr. Knight: The discussion we had yesterday from the Treasury indicated that was one of the concerns there are.

Dr. Wonnacott: That is a concern, but is there any historical precedent?

Mr. Knight: I am simply going on the evidence we had yesterday. They did not indicate there were any discussion papers.

Dr. Wonnacott: There is one precedent in history, and that is the German Zollverein. That was set up by Bismarck as a means of creating political unity.

Mr. Knight: It is not my concern as much as the political leverage that may be implicit because of the largeness of the market.

11:50 a.m.

Dr. Wonnacott: The kind of pressure that could occur, if you do not have monitoring of trade between the Canada-United States border, is that the two countries could impose different tariffs on third countries. If Canada has a lower third country tariff, a flow of goods into Canada and then into the United States is a way of bypassing the United States tariff, and the Americans could then put pressure on the Canadians to raise their tariffs to prevent that.

As free trade arrangements are set up, you have restrictions at the Canada-United States border to prevent that circular flow of trade being a problem. Those arrangements work well. They are not as substantial as one might think. They have worked well in other free trade arrangements and they eliminate this problem. There is no reason for the Americans to try to force a similar tariff on Canada.

Mr. Ferraro: I admire economists, although I do not necessarily understand or agree with them all. I say that respectfully, but it does not matter because I cannot even balance my own bank account.

Are you a proponent of free trade or of trade liberalization? I apologize to you, but in listening to you this morning I think there are merits for both cases. As one of the more respected economists in Ontario, is your position for free trade per se or for more liberalization of free trade?

Dr. Wonnacott: There is no such thing as absolute free trade. We do not have it between provinces and the United States does not have it between states. When you talk about free trade, you have to recognize you are talking about the best you can negotiate. It is in that sense that I use the term, the greatest degree of liberalization.

Mr. Ferraro: The greatest degree.

Dr. Wonnacott: With important exceptions on the cultural side.

Mr. Ferraro: Right. From a purely economic standpoint, based on the degree of the unknown, the number of risks we know about and do not know about and the hypothetical aspect of that approach, would the province not be better off to do it on a compromise basis, as opposed to going into a treaty per se that would say, "Here it is," albeit graduated and so forth?

It may be a political cop-out to say, "We are going to have a bilateral agreement" and go with it, as opposed to saying, "We have a free trade agreement per se." But it would make it more liberal, although not quite as liberal as you might want from the standpoint of not knowing what the risks are.

Dr. Wonnacott: The problem is you tend to get the worst of both worlds. That is what we are getting now with the tariff cuts under the GATT. We are moving in that direction. The difficulty is, if you are going to establish a firm in Canada that will be serving the US market--and in many cases that is what we

have to talk about, to get the advantages I have been considering--that will be justified if there is a high degree of assurance of access into that US market. It will be much more justified than if there are risks attached to that investment in Canada.

As long as small US tariffs remain, as long as you do not have access tied down by an agreement, there is a problem. You may build a plant this year and two years from now Congress decides it is in favour of some sort of restrictions on the exports of that firm into the United States. The firm's access would now be compromised and the investment not justified. Unless you get a high degree of assurance of tied-down, committed access by the Americans, as they did in the automobile plant, it becomes much more difficult to justify investment in Canada.

Some of the US tariffs are nuisance tariffs. You ask, what is the problem? As long as protection exists, it is easy to increase it and beach that investment in Canada. It is much easier to increase it than if it is tied into free access. It is then tied into an arrangement in which you are talking about breaking a treaty. The president can simply say, "No way."

A point came up earlier that I meant to answer; let me do it now. Eighty per cent of our trade is going to be duty free with the United States anyway; are we not freely trading already? Is that right? The answer is "no," because those averages take no account of products Canadians could be exporting profitably to the United States, but which we are not now exporting because of prohibitive US tariffs. Those products simply do not appear in the tariff average. We may have an economy in which there are a lot of prohibitive tariffs into the United States and there may be some products which are absolutely freely traded. The only things we are able to export are the things that have a zero US tariff. We then look at our export patterns and ask, "What is the average tariff?" The average tariff is zero; we are freely trading. Is not that right? It is wrong. We are running into a lot of prohibitive tariffs in the US. That is the problem with that calculation.

Mr. McGuigan: What are examples of this prohibitive tariff?

Dr. Wonnacott: I have dramatized the problem so it can be understood. There are a lot of products in which there is some export, but not nearly as much as there should be. You get the same bias in the calculation as you would in the extreme case I am talking about, but the bias is still there.

Mr. Taylor: You are distinguishing potential from actual. The potential is great but it does not translate into the actual because of the disincentive.

Dr. Wonnacott: Here is another way of putting the same point. Look at what we export to the United States. We are exporting things such as automobiles to the United States that go there duty free. We now have an economy that exports through whatever holes we can negotiate in the US tariff wall, in the US tariff barriers. We negotiate and we get a hole in the barriers to the US market and that is what we export.



That is not good enough for Canadians. The things in which we specialize should not be determined in Washington by the willingness of the United States to give us special treatment in a few sectors. Right now it is automobiles and resources, and there are a lot of other exports that go by some small US tariffs. I just think that is not good enough for Canadians.

Mr. Taylor: Do you think the nontariff barriers will become more important when you eliminate the tariffs? I guess it would become a more sophisticated science. You may find yourself teaching it at the University of Western Ontario; maybe you do now.

Dr. Wonnacott: That is what I say. We are going to have disputes with the Americans from now until the end of time. One of the areas of dispute will be new, nontariff barriers that at present we do not even know about, which are discovered, invented and brought into place.

Mr. Taylor: I would think so.

Dr. Wonnacott: We have to have a dispute mechanism. We live with this problem anyway under the present system and we are going to live with it under free trade arrangements. We are going to have to work ourselves through a dispute mechanism that will handle this. We might as well concede that we are not going to get every decision we want, that we are going to get adverse decisions in the process. However, it is better to be trading and getting the gains from a lot of trade than to try to escape from the difficulties. We have the difficulties now. The option is, "No truck nor trade with the Yankees."

12 noon

I have a question for politicians about, "No truck nor trade with the Yankees." We have been told by politicians that we must not mention free trade. Sometimes it is suggested the reason for that is we had an election in 1911 in which the case of free trade was lost, and we had better not have another such election. Within a decade or two of a time when the Europeans were killing each other, we had the Treaty of Rome in which they agreed on a much tighter form of economic integration than we are talking about here. That was within a decade or two of killing each other.

Are we saying that we in Canada can go back 74 years to an election in which nobody got killed and, because of the result of that election, oppose a trade initiative now? That election was based on what can hardly be viewed as one of the more sophisticated slogans of all times, "No truck or trade with the Yankees." Think about that. It was not to have reduced truck or trade with the Yankees; it was no truck or trade with the Yankees.

Mr. Taylor: Yes, but also you have to remember the history. Now we have a Liberal government in Ontario and the Liberals stand for freer trade or more liberal trade. There is also a current precedent which changes that historical perspective with regard to the separate school issue, where you had a reversal of a political posture that--

Mr. Knight: Mr. Chairman, Mr. Taylor's history is a little wrong. We have always been agreeable to liberal trade as we have been agreeable to a lot of things being liberal, especially the government.

Mr. Ferraro: Even Mulroney's talking about--

Mr. Taylor: No. What I am saying is that history, when you are applying--I think the history changes as well, it evolves.

Interjection: I would hope so.

Mr. Taylor: I am not placing too much emphasis on the persistence of a political philosophy of one party or another, as evidenced by a couple of recent events.

Mr. Chairman: You are seeing the ability of politicians to draw a red herring across the issue. Gentlemen, just as a matter of procedure, we should agree that we will continue this until, say, 12:30p.m., if everyone is in agreement, bearing in mind that we are starting again at 1:30 p.m..

Mr. Morin-Strom: One of the problems we have to face in this committee is the lack of reasonable or definitive studies of any type having been done on what the impact of freer trade arrangements would be. We have the opportunity right now to speak to you as one who has done one of the few studies in the country on this issue.

Can you give us a specific estimate of how many Canadians would not hold the jobs they currently hold if today we were under the free trade scenario that you are advocating? How many Canadians would have new jobs available to them as the balance? You talked about this balance between jobs gained and jobs lost. What would be your specific estimate of those two sides of the equation? In particular, what would be the estimate in Ontario?

Dr. Wonnacott: I cannot give you a specific estimate any more than anybody can give me a specific estimate about the jobs which will be gained and the jobs which will be lost if you do nothing. I cannot do that.

You can have somebody do that in a model in which certain assumptions are built in initially, and you can come up with a very conditional estimate, subject to the assumptions that you start with. But I am uncomfortable about that kind of exercise.

You cannot specify jobs gained and lost under a continuation of the present status quo policies, and I cannot specify the jobs gained or lost, specifically in numerical terms, under this kind of policy. The estimated questions on the demand for labour suggest that moving from where we are to an enhanced trade arrangement would be at least neutral or better. In addition, it is likely a lot more jobs would be saved than if the United States became more protectionist and we lose our present markets.

Mr. Morin-Strom: If you have studied this subject extensively, I cannot understand how you can contend that the net

is going to be a gain when you cannot make a specific estimate on both sides of the equation. This is what we shall have to do during this whole exercise. You are one of the experts in the field in the province and you are unable to provide us with an estimate.

Dr. Wonnacott: I do not think you, as politicians, should accept that responsibility. You cannot tell. Let me give you another example. You are thinking of imposing a sales tax and know that to some degree the buyer and the seller of the goods will bear the burden. You do not know what the mix will be. If I advised against imposing a tax on alcohol because of every dollar of tax 65 cents will be placed on the consumer and 35 on the producer--you will not tell me the figures--that does not mean you do not go ahead with the tax.

Mr. Morin-Strom: We have to be able to make the estimate. We have to judge whether there is going to be a net benefit or a net loss. You are an expert witness who has a neutral opinion on whether it is going to be a net benefit. You are not giving us an indication about the quantitative benefit as you argue your side of the issue.

Mr. Cordiano: There is a difference between the two things, if I might just interrupt for a moment. We are talking about the professor giving us a quantitative figure on gross national product. The real question is unemployment. We cannot determine that. Would you not agree?

Dr. Wonnacott: You can make a statement about it but cannot be precise.

Mr. Cordiano: Just to clarify, there are two different answers.

Dr. Wonnacott: Even with the GNP, you are talking about five to 10 per cent of GNP. That means about \$20 billion to \$40 billion, a range that is not being specified.

Let me help you a bit. If you want to get a number to take to the public, say, an estimate of 47,000 net jobs gained by this, there are two people who might be able to crank that out in the next month and discuss it with you. If it is important to be specific down to thousands of jobs, that can be done. An economic model can be cranked out but it will be conditional on your assumptions.

Mr. Cordiano: It is a question of the period of time you are talking about. With the structural changes that could take place in the economy, you can make a million and one assumptions. It is not going to be valid.

Mr. Ferraro: I would like to have an answer to Karl's question. I think all politicians and all--

Interjection.

Mr. Ferraro: If the economists could not figure out what



the ramifications of unemployment from year to year were going to be, I do not know how on earth we expect them to come up with figures to that degree.

Dr. Wonnacott: You want to know if they are going to be talking about continuing with the present policies. You cannot give them numbers on that. This committee may want conditional estimates. I can tell you two people who will do it, and a couple of others as well. These are serious people who work on this issue and they will provide good estimates, although conditional ones.

Mr. Morin-Strom: That is important. The people of Ontario working in specific industries want to know on an industry or company-by-company basis whether they are vulnerable. How many jobs are likely to be lost in this industry or this company? On the other hand, which industries and companies are going to be the gainers? How many jobs are likely to be gained there? People have to know what is going to happen in this province in order to make a real judgement.

Mr. J. A. Taylor: Maybe we will be hearing from some of those sectors as a result of the advertising of the committee. Maybe they have done some work on their own.

The Vice-Chairman: Could I suggest that the crux is the committee's decision on whether we want to spend that kind of money? I imagine we are talking about a lot of money. Do we want to get those sorts of things?

Interjection.

12:10 p.m.

Mr. Mackenzie: My question is somewhat supplementary. With the unemployment problem being a serious one, your approach is that we have to show a lot of compassion or come up with some way of dealing with this problem. How do we pay for that compassion? Do you see it in what you see as the additional trade?

Dr. Wonnacott: I am used to talking to students for an hour at a crack and my voice barely lasts. When talking to a more sophisticated audience, I double that time. I am not quite sure how much longer I can go on, but I will keep going as long as I can. In making that observation, I have forgotten what the question was.

Mr. Mackenzie: How do we pay for the compassion?

Dr. Wonnacott: General tax revenues would be one way. You could set up a specific system in which it is quite clear that these adjustment expenditures are being financed out of the benefits of the program itself. Politicians would find that very attractive and that is my recommendation, which is addressed to the federal government rather than to a provincial government.

As you liberalize your trade, as you reduce your Canadian tariffs by one per cent a year, you are bringing down the price of consumer goods by roughly that same one per cent a year under the

pressure of import competition. If you impose a half per cent sales tax, as your tariff comes down and consumer prices fall, which is one of the benefits of free trade, half of that benefit is taxed away and is used to set up a fund to cover retraining and portable income relief to those who are temporarily unemployed. That is financed directly out of the the perceived and obvious benefits to the public of trade liberalization.

It will be recognized that it is not a call on the general tax revenues or on the taxpayer and you have been involved in a policy that has been mutually beneficial. It has benefited the consumer by the half per cent at each stage and it has allowed the labour force the funds to get over the interim period of adjusting. On balance, and here the historical evidence is strong, they will be moving from industries that pay lower wages to industries that pay higher wages on average.

Mr. McGuigan: I have a question about something that is happening in the US, the movement of people from the northeast to the sunbelt states. Manufacturing is moving south and so the markets are moving farther south. Does this have any influence on our geography from the point of overnight trucking for 50 million or 60 million people? Have you taken that into consideration?

Dr. Wonnacott: It makes the potential advantages fewer than they would have been 20 years ago but it still leaves enormous potential advantages. It does raise a problem for Minneapolis-St. Paul. One of the problems for the northeast is not only location, but also the condition of living in cities. If you want your analogy for Toronto, you should be looking at Minneapolis-St. Paul. Both are very attractive places for industry and both have had a problem because of the drift south of industries towards lower-wage regions. We have to face that.

The situation in Toronto, if you had free access to the North American market, would be better than the situation in Minneapolis-St. Paul, which has done very well in the US free-trade area. It has prospered despite this drift south. It is a very attractive place, there is a lot of good industry there, but the truth is it is not nearly as attractive a place as Toronto to service that golden triangle of American concentration, the Chicago-Boston-Washington triangle, where historically a very large proportion of the action has been. Now there is less action, but there is still a lot of action there.

Mr. Chairman: But Toronto is not as attractive as Atlanta in the 1980s.

Dr. Wonnacott: The twin cities are not as attractive as Atlanta, but they do very well. Toronto would do better. I cannot guarantee Toronto would do better; I am just saying it is in a better location. It should do better because it is closer. It has fewer costs for moving products. There are problems with moving products from Minneapolis-St. Paul. It is also better because our dollar is 73 or 74 cents. In making an investment decision, firms can quite comfortably and conservatively base their estimates on an 80-cent or 85-cent dollar and still have a pretty conservative estimate of the advantages of being in Toronto rather than in Minneapolis-St. Paul.

Mr. McGuigan: There is another subject. You mentioned items on which we pay a high tariff. Could you give us some examples of those? What are some of the items we might sell to the US once it removes its tariff?

Dr. Wonnacott: The most prominent item has been petrochemicals. There was an expectation by the Canadian industry that we would be getting relief on the Tokyo round, and we did not get such relief. A lot of the expansion of the industry in Canada was based on the assumption that we would be getting relief on the Tokyo round and industry was disappointed. If you talk of a Canadian industry that has had a problem because of US tariffs, that would be your number one case. Chemicals have traditionally been a high-tariff item in the US.

One ought to think about nontariff barriers because this negotiation will be heavily involved in nontariff barriers by American policies and things of that kind. We should be seeking a substantial degree of relief on those. We should be going for national treatment for Canadian products. Once you get Canadian products across the border, they are treated by governments in the US just as American products are treated.

Again, one cannot make any guarantees. One has to give up concessions on the Canadian side. On the Canadian side, when you give up government procurement concessions--this is important from the Ontario view--and say that you are going to treat American products just like Canadian products, it means you have to have provinces that are treating Canadian products like other Canadian products. In a sense, what you should be pursuing in Ontario is a package that is trade liberalization with the US plus national treatment within Canada for products from a different province. That would be a big advantage for Ontario.

Mr. McGuigan: Stop discriminating against Bombardier Inc.

Dr. Wonnacott: That is the other side of the coin, as was pointed out in one of the recent first ministers' conferences. I am thinking now of getting rid of the preferences other provinces raise against Ontario goods. We hear an awful lot of complaints in Ontario that we do not have a free-trade arrangement within Canada because there is discrimination against Ontario goods in other provincial markets. That is a problem. It is a second-order problem but it is still a substantial one. An agreement could be used as a way of forcing the Canadian trading system into line and getting rid of these discriminatory arrangements.

Mr. Chairman: On that issue alone, do you feel Ontario would benefit a lot, as opposed to other provinces?

Dr. Wonnacott: This is another potential benefit to Ontario that I did not mention earlier because it is a second-order benefit. The benefits of getting unrestricted access into the Alberta market for beer or whatever it is, and all these things collectively, are nothing--they are important, but they are nothing--compared to the benefits of getting into the US market.



12:20 p.m.

Mr. Knight: You had quantified the benefits of free trade as far as gross national product is concerned at five or 10 per cent, I believe. I understand that benefit would be derived largely from two particular factors, an increase in wages and a decrease in costs. Could you tell us in what proportion you see the benefit, what amount is attributable to either of those two factors?

Dr. Wonnacott: You cannot divide that into two, because it depends on what is happening to your exchange rate. It is really sensitive to the exchange rate. You are talking about nominal change in costs, the change in money costs and money wages in Canada.

Mr. Knight: Presuming a static situation as it is now, you had to use something to come up with your determination and presumably that is why you have your five to 10 per cent.

Dr. Wonnacott: Let us think about automobiles for a minute. Most of it went in the form of increased wages in that case, although there were big advantages to the consumer in terms of lower-priced automobiles. They did not appear initially, and they may not have been emphasized as much as they should have been because a lot of the advantage in terms of lower cost automobiles came, not because the price of autos came down, but because if we had used the alternative policy, the protective policy, the price of automobiles in Canada would have gone away up.

You would say it was big in both dimensions, but whether we are talking about 50-50, 40-60, 70-30 and which way, I regret I can not split them.

Mr. Knight: In any event, would it not be true that that would be a long-term benefit as Canadian industries became more capable of penetrating the larger North American market, but that in the short term it would be substantially less? I wonder if you have some feel as to what it would be when you take into consideration that it would take Canadian firms some time to gear up. Even having done that, the resultant decrease in prices that you would expect would be offset for a certain period of time with the capital investment that would be necessary by the Canadian firms to get themselves in a position to be able to realize the production runs to access the North American market.

That five to 10 per cent may very well be misleading. You have to take a look at it as to the components, and you have to take a look at it as to what it means in the short run as well as the long run.

Dr. Wonnacott: Yes. You will not wake up tomorrow morning and find your income is up five to 10 per cent. You are quite right. We are talking about a long-run income increase, and in the interim period in which you are moving into this system, the division of that income increase and the speed of that income increase is not at all clear. I agree with you 100 per cent.

Mr. Knight: Do you have any idea as to how long it would take to get into a plus position?

Dr. Wonnacott: Pardon me?

Mr. Knight: Would you suggest that there is a period of time during which you would not see a benefit to the GNP?

Dr. Wonnacott: That is possible. I would expect benefits to start flowing fairly quickly, because as fast as you start reducing tariffs you are reducing prices in Canada. You are putting downward pressure on price levels in Canada, and, subject to the degree to which you siphon this off in a tax to buffer the adjustment assistance, part of that price increase could immediately show up in terms of real income increase.

Once again, even that statement would need to be qualified by the fact you may have a move in the exchange rate. It is not clear to me. The exchange rate might go up. With an increase in the exchange rate we would get immediate real income gains even in the short run. The exchange rate might go down if it is required as a buffering mechanism. If the exchange rate does go down, you might not get any of these gains from a lower price level. If you are starting here and you are going there, I agree with you that you are going through a period during which the gains are not clear.

Keep in mind also that in all this discussion we are talking about moving from where we are to liberalizing trade with the United States, and you must in all your deliberations recognize that is only half the story. The other half of the story is avoiding problems that are likely to arise with the present policies, if they continue. That is half the issue. It is not because of the benefits of going from where we are to fully liberalized trade that has moved the centre of the business community from dead opposition five or 10 years ago to, on balance and with exceptions, support now. It is the fear of what is going to happen and the risks that are involved in continuing with the present policies. There you are talking about a confluence of losses that occur under present policies that could have been avoided.

If something happens in lumber in British Columbia, we can estimate pretty closely on the back of an envelope the result of a restriction that reduces British Columbia lumber exports to the US from 30 per cent to 20 per cent of the US market. We can calculate what happens to British Columbia employment and income as a consequence of that.

However, I am talking about these other protective American measures that are always arising in Congress. I cannot predict what they are going to be next. It is not just the uncertainty; it is also a recognition of the uncertainty in losses from not securing trade.

Mr. Knight: Although with free trade you might secure purity as far as dealing with the administration is concerned, some of the pitfalls inherent in our present system, in the

protectionist measures, may well be transferred to the state level or to other industry types of barriers and create the same sort of protectionism. To suggest the other half of the equation is that we have problems right now and moving towards free trade may well eliminate them is not necessarily so. It may transfer where our concerns should be.

Dr. Wonnacott: Let us look at the point that has arisen before about getting a freer trading Canadian system. It seems to me a Canadian federal government that is willing to take an initiative on this can simply say to Alberta and British Columbia: "This is the policy you want and this is the policy we are prepared to support. It is going to provide enormous advantages to you, but the cost to you is the end of provincial discrimination."

That means the end of discrimination against Ontario goods. Your brief to the federal government should state that it is a condition from Ontario's point of view that there be an end of these preferences in other provinces. Those other provinces correctly perceive the advantages to them of this kind of agreement and they would be prepared, I am sure, to accede to these costs.

Mr. McGuigan: Unfortunately, the government just passed a law where it failed to insist on stabilization of red meat and allowed the provinces to continue top loading. Their objective was to eliminate top loading.

Dr. Wonnacott: The great advantage of a trade negotiation is that it allows you to get rid of a lot of things. It is not just getting access to the other country's market that provides great benefits. It allows you under the guise of having to make negotiating concessions to get rid of offences in your own domestic policies that you cannot get rid of otherwise because they get such strong support from special interest groups. You simply say, "Look." In fact, in any negotiations it seems to me you should go with a package of things you would like to have the Americans negotiate away. You would not want to tell the Americans which are the ones you want to get rid of but cannot. When the issue comes up, you would be quite happy to concede them in the interests of getting greater access to their market in some way, so you would get your cake and eat it too.

That seems to me to be very important in the negotiating process, having a list not only of the offences you want to get rid of on their side but also of the domestic offences you cannot get rid of for political reasons. Would there be some way of building an end to rent controls in US-Canadian negotiations?

Mr. Chairman: Professor Wonnacott, thank you very much for your input. It has been of great assistance to us, no doubt about that. It will help us to cope with a problem we are still trying to grapple with. I think we have learned a great deal this morning.

The committee recessed at 12:32 p.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, JULY 25, 1985

Afternoon sitting



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Mohide, Dr. T. P., Director, Mineral Resources Branch

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, July 25, 1985

The committee resumed at 1:40 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: We are ready to start again. This afternoon we have with us a number of people from the Ministry of Northern Affairs and Mines. The presentation they are going to give to us will be led by David Hobbs who is the deputy minister so I will turn the meeting over to David.

Mr. Hobbs: We appreciate the opportunity to present a prospectus on the current status of the mining and mineral sector in Ontario and some of the implications of the bilateral trade situation with the United States for the sector. I am simply going to introduce the gentlemen who are up at the table with me.

On my right is Jim Finlay, the executive co-ordinator for mineral resources; beside him is Dr. Tom Mohide, director of the mineral resources branch; and at the end of the table is Dr. Gerry Anders, the senior policy advisor in the mineral resources branch.

We have primarily an overhead presentation but Dr. Mohide is going to give a four- or five-minute broad overview of the area, which will then be followed by Dr. Anders giving the core presentation. I will ask Dr. Mohide to begin.

Mr. Taylor: Could we have some guidance with regard to interjections?

Mr. Chairman: It would be perhaps preferable if we spent the four or five minutes listening before we start to interject.

Mr. Hobbs: Four or five minutes would be sufficient, but we are prepared to field questions at any time.

Mr. Chairman: All right, you will get them then.

Mr. Taylor: How long do you propose your presentation will take?

Mr. Hobb: It is about half an hour to three quarters of an hour. That will depend on the number of questions you ask.

Dr. Mohide: I just want to paint a picture to give you a broad-brush view of the context in which Ontario mining operates.

The market for metals, which make up the bulk of Ontario mining, is worldwide. Canada has had serious problems in its mining industry and Ontario has not been immune to them in the last few years, since about 1977. The wonderful days of mining,



when Canada and Ontario were supplying 80 per cent of the world's nickel, are all gone. Now we are fighting for a market share.

The markets that we can sell to are the three major markets in the world which take metals, minerals and manufacture. They are western Europe, the European Community in particular, Japan--a very huge market there, 120 million people--and the United States which is getting up to 250 million people.

Canada, Australia and New Zealand are major mineral suppliers but they are on the outside looking into those markets. These markets have deliberate tariff barriers to protect their inner occupants. The United States, in general terms, is well known to have a number of tariff barriers. The European Community has very deliberate and discriminatory tariff barriers which vary from commodity to commodity. Japan is very famous for its external role at keeping products out in favour of internal products.

So Canada has to fight for its share of market and it has many disadvantages.

The next thing to mention quickly is prices. There is a lot of misconception in the world about metal prices. First, they cannot be manipulated by governments, whether it is a provincial government, the federal government in Canada or the United States or any government. This has been attempted in the past. The last time it was tried on a major scale was silver in the United States about 15 years ago. It failed because it set an artificially low price and, therefore, those who had silver would not sell. It was very simple. They folded their arms and stayed away, so that was the end of that attempt by the United States at control.

You can control the price of a metal if you control all the production and it is a time of scarcity, such as a war. Otherwise, you cannot control it, so it finds its own level. So that is beyond the control of any government action in Canada.

Second, the number of competitors to the metals that Ontario produces has increased in the last 20 years, mainly in the tropical belt, in nickel, copper and many other metals. These are underdeveloped countries, and their great advantage vis-à-vis Ontario and Canada is that they have received massive funding from the World Bank, International Monetary Fund, the Inter-American Development Bank and many other banks. Therefore, they are at an advantage because Canadian companies and Australian companies cannot do that.

Also, in those underdeveloped countries they enjoy very low labour costs and, typically, cheap mining production facilities. In other words, they will have open pit more typically than deep shaft mines, which northern Ontario has in most cases. Those countries also have no unions and no basic democracy, so the central government basically has control of the mining industry and its direction.

As well, they have no environmental constraints. Canada, the United States and western countries require enormous sums of

capital to comply with environmental regulations, but the developing countries do not have that handicap.

The other two features I should mention are that western Europe has increasingly withdrawn its capital expenditures in North America on mineral projects, new mines and mine extensions in favour of South America and Africa. In complement to that, they have also made preferential purchases from Africa, Latin America and southeast Asia. They are dealing there with soft currency countries, but if they buy from Canada and the United States, they have to provide hard currency. It is better for their general terms of trade to deal with those countries and use them increasingly as a source of their minerals.

That is a severe disadvantage to Canada because that sourcing policy is now endorsed by the whole of the EC. There are many ways in which the ramifications penetrate but, in short, it is again a situation about which Canada can do nothing.

So we have to fight a very difficult market throughout the world for each commodity, each market being different; and it is not easy.

Dr. Anders will present a series of slides in an integrated way to show you the state of the mining industry as it now is, the state of tariff and other terms of trade between Canada and the United States, labour problems and labour situations, and isolated community situations in northern Ontario. He will sum up with developing or threatening situations which involve an increasing number of nontariff and tariff barriers, in the United States in particular, that may well develop.

Dr. Anders is a mining engineer. He also is a doctor in economics, a former associate professor of economics in the United States and a former adjunct professor of economics in the University of Toronto. Dr. Anders.

Dr. Anders: If I may, I would like to move to the overhead projector, and I wonder if it might be wise to turn down the lights a little bit so we could get a better contrast.

1:50 p.m.

Mr. Chairman: Go right ahead.

Dr. Anders: To put the free trade issue in perspective, I shall (1) go over some relevant data on Ontario's mineral output value, the relation of our mineral sector to our own economy and its relation to the world economy; (2) briefly talk about employment, wages and the issue of single-industry towns, which are an important factor as far as this industry is concerned; (3) cover the changes that occurred in the past in the values of ore hoisted and of metal exports and US import reliance; and (4) go over metal price trends and investment patterns.

Mr. Chairman: Excuse me; apparently the microphone is not picking up your voice. Could you move to the next seat on either side?

Mr. Taylor: We want every word indelibly inscribed for posterity.

Dr. Anders: This may sound rather a lot, but we believe it is a necessary preliminary to lead up to a summary of the key elements of the free trade issue from an Ontario minerals perspective, and of US tariff barriers that I will cover in some detail including some current US legislation before either the House of Representatives or the Senate.

The first slide gives you the value of mineral production in Ontario. This includes the value of metals, nonmetallic minerals, structural materials--these are sand, gravel, building aggregates--as well as fuels produced in Ontario. Metal mines production was valued at \$3.4 billion or 77 per cent of the total. This was followed by structural materials at \$665 million for 15 per cent, and nonmetallic minerals at \$209 million for 4.7 per cent. Fuels and other minerals accounted for the remainder.

The value of the industry's output in constant dollars dropped from a peak in 1980 to the lowest level of the decade in 1982. With a modest recovery in both 1983 and 1984, the value of mining output is increasing, but is still below that of the late 1970s in real terms.

The nickel-copper mines are by far the largest contributors--

Mr. Taylor: Could I interrupt for a moment?

Dr. Anders: Certainly.

Mr. Taylor: Your time frame is relatively short. It does not look too bad when you look at that, but there is a little longer perspective on that. I am thinking of the percentage of the world nickel market we had at one time and now it is probably 20 per cent.

Dr. Anders: To answer the last part of your question first, the percentage of the world nickel market is somewhat less than 20 per cent. I believe that is down from almost 90 per cent before the Second World War.

Mr. Taylor: That is the perspective.

Dr. Anders: Exactly.

Mr. Taylor: This does not look too bad, but when you look at it compared with--

Dr. Anders: It does look worse; that is quite correct.

The nickel-copper mines are by far the largest contributors. The value of nickel alone was \$926 million in 1984. That amounted to 26 per cent of the value of all metals, but these same mines also produced a significant proportion of Ontario's copper, all the platinum group metals and large quantities of silver and gold.



Usually we cover the platinum group metals as one group for statistical reasons. They are reported jointly. This group consists of the following, and I will give you also the current prices per ounce: Platinum, \$266 per ounce; palladium, \$94 per ounce; iridium, \$375 to \$400 per ounce; osmium, \$1,000 per ounce; rhodium, \$650 per ounce; and ruthenium, \$75 per ounce. These are all US dollar figures because these are the terms in which these metals are traded.

Mr. Taylor: Are those strategic metals?

Dr. Anders: Some of them, platinum and palladium in particular, are of strategic importance. The only other significant sources for these platinum group metals are the Republic of South Africa and the Soviet Union.

Among individual minerals, nickel has long been the most important--and we are now moving from all minerals to the metallic minerals specifically. The exception was 1982 when the mines were shut down for extended periods. Copper usually ranks second in terms of value, followed by uranium, zinc and gold, but these rankings do change from year to year. This figure shows the distribution of the real value of metallic minerals produced in Ontario during the period 1975 to 1984, the real value inflated to 1984 constant Canadian dollars.

It is a considerable cause for concern that the mining industry, in general, has been recovering much more slowly from recent recessions than other industries. That is shown in the next diagram, which represents the lack of recovery for a number of industry groupings since 1972, index values there being 100. As you can see, in the case of metals--that is the heavy black line at the bottom--each top, after any given recession, was somewhat lower than the previous top, whereas industrial production in general recovered much better. Prolonged weakness in real metal prices, combined with increasing Third World competition, largely accounts for this performance. I will cover these factors a little later.

Let us now look at the relation of Ontario mining to the rest of the economy.

Mining is the second most important primary industry in Ontario. It accounts for 42 per cent of the gross domestic product attributable to the primary industries averaged over the period 1971 to 1982, while agriculture accounts for 51 per cent. So mining runs agriculture a very close second, as you can see on the left side diagram. On the right side diagrams are mines, precious metals, metal fabrication, nonmetallic, in relation to total manufacturing.

2 p.m.

However, when we include downstream industries, mining is the most important of the primary industries, forgetting about manufacturing. That is, when mining is integrated with primary metals, metal fabrication and nonmetallic mineral products, the contribution of the four mineral-related industries amounts to

20.1 per cent of the gross domestic product of all the goods-producing industries, including the primary industries. This shows you these linkages. When agriculture is integrated with the food and beverage industry, it accounts for 13.4 per cent of the total gross domestic product. When forestry is integrated with the wood, furniture and paper industries, it accounts for 7.2 per cent of the total. Mining is in the middle, accounting for 20.1 per cent of the gross domestic product.

This diagram shows their relative importance to employment. There is the last one showing you the relationship in terms of value. We must note that overall, downstream industries--and that includes the metals used in manufacturing industries as well as in construction--do not absorb more than the equivalent of between 20 and 35 per cent of Ontario's mineral output.

Mining's importance to Ontario is accentuated by comparing its output with that of other jurisdictions. Ontario accounts for 40 per cent of Canadian metallic mineral production, and Ontario is a significant producer of several metals. Provincial metal production amounts to the equivalent of 30 to 40 per cent of the metal mines output of the entire United States. That, in the trade context, is a significant fact.

This gives you the relationships of production between Ontario, Canada and the world in tonnes under production. The last, second-last and third-last columns show, in value terms, Ontario production as a percentage of Canada, Ontario's production as a percentage of the world, and Canada's production as a percentage of the world.

Mr. Morin-Strom: Going back to the last slide for a moment, what would be in the manufacturing category in northern Ontario? Would much of that be paper?

Dr. Anders: That would be primarily paper and probably other wood-related industries.

Mr. Morin-Strom: Where would steel be there? Would that be under manufacturing?

Dr. Anders: Steel, as far as it occurs in Wawa, would be included under manufacturing, but steel production in Hamilton would not be included.

Mr. Morin-Strom: In Sault Ste. Marie it would be, under the north?

Dr. Anders: Yes, under northern Ontario.

Mr. Morin-Strom: Are you saying the mining there accounts for 30,000 out of 347,000 jobs?

Dr. Anders: That is correct.

Mr. Morin-Strom: That is a little under 10 per cent.

Dr. Anders: That is right. The classifications under

primary industry are covered in the notes. Forestry includes only logging and forestry services, and mines includes milling, quarries and so on. That means metal mines, mineral, fuels, nonmetal mines, quarries, sandpits and services incidental to mining. That is mining contracting.

Mr. Morin-Strom: Does it include refining?

Dr. Anders: No, primary industry does not include refining. It cuts off at the head of the mill.

Mr. Morin-Strom: So we really do not have the full picture as to the impact of mining on jobs in northern Ontario. Would refining be a major element?

Dr. Anders: Yes. Refining would be included under manufacturing. That happens to be the way in which Statistics Canada has consistently reported these figures.

The eight metals represented account for 77 per cent of the value of all of Ontario's minerals or 96 per cent of its metallic mineral production. Five account for more than 40 per cent of Canada's production. Once we move to the second-last column, Ontario in relation to the world, Ontario's production is today truly significant on a world market scale only in nickel, almost 20 per cent, and in uranium, about 11 per cent; everything else is five per cent or less.

These figures highlight the independence from Ontario of our major customers--there are many other sources--the lack of influence of Ontario producers on world prices and thus the absolute necessity of Ontario's producers to contain production costs. If you control only 20 per cent of any market, you do not have real control.

Let us turn now to employment, wages and the single-industry-town problem. At present, mining companies in Ontario directly employ about 31,000, broken down in this figure by major metals. In most cases uranium comes in only rather late, as it has not been represented too well. It started growing in 1978 after the decline following the collapse in the late 1950s. The variation is pretty well due to the changes in the metal mining industry, which means primarily Sudbury. We are still below the 10-year average from 1975 to 1984.

If we include primary metals, nonmetallic mineral production and metal fabrication, the employment in this sector rises to 219,000 in 1984, which would compare with about 990,000 in the manufacturing industries. These last two figures apply not only to northern but to all of Ontario. We might also point out that in relative figures--"relative" meaning related to the total labour force--Ontario's metal mining industry employs approximately eight times as many people as the metal mining industry in the US.

Nickel mines dropped from 24,600 in 1975 to 13,700 in 1984; that is, 44 per cent. Even so, the 13,700 still represents nearly half of Ontario mining employment. Similarly, in iron ore, in 1975 we had 3,780 compared with 1,600 in 1984. These losses may be



compensated over the next years to some extent, although not entirely, by the new mining jobs being created in the Hemlo area gold mines.

Figure 9 compares the trends over this century of real output and employment in Ontario metal mining. This may give some further response to the question put a while ago. The left scale gives you the value in constant 1961 Canadian dollars, the right scale the employment in mining total activity. It is reported in statistics in absolute numbers.

Until 1960 both trends run pretty well in parallel. They started to diverge in the first half of the 1960s, mining employment continuing to decline, while the real value of production at first increased before it started to drop precipitously from its 1980 high. The decline in value of metal mining since about 1960 very largely mirrors the movement in real metal prices.

2:10 p.m.

The employment performance is directly related to the wages and salaries paid in Ontario. In 1983, the last year for which we have detailed numbers, the mining industry paid \$973 million in wages to its Ontario employees. This diagram provides the weekly-wage comparisons for selected industries. Mining leads throughout the period of comparison. In some years construction came pretty close but never quite reached the weekly value except in 1978 when it was a little higher.

As shown earlier, total current employment is below the 10-year average largely because of the employment decline in the nickel and iron ore sectors. However, 1984 employment in uranium, gold and industrial minerals production was above the averages of 1975 to 1984.

Mining is of critical importance to northern Ontario. All but two of the major metal mines and processing facilities are located there. The only metal mine in southern Ontario is the magnesium one at Haley Station, northwest of Ottawa. Inco operates a cobalt and nickel refinery in Port Colborne but nickel refining has all but ceased there. Port Colborne serves primarily as a redistribution point.

At present, more than 90 per cent of Ontario's direct metal mining employment is in northern Ontario, which represents two thirds of the employment in the primary industries of the north, excluding jobs in quarrying and sand and gravel pits. The heavy dependence on mining by many single-industry communities in the north is shown in the next slide. Single-industry communities are those where the ratio of mining to total employment is 20 per cent plus and the total population is 500 plus. While Sudbury is no longer considered to be a single-industry community, its dependence on mining is still great--more than 20 per cent, even excluding downstream effects.

This importance will increase when the Hemlo area gold mines start up in 1985 and 1986. As there is still major construction

activity in the area, the communities affected the most, Manitouwadge, Marathon, Heron Bay and even White River, have not been included in the tabulation but their dependence on mining will grow.

A lot of the problems of our mining industry relate to the changing character of the ore that can be mined and the development of exports. One of the major reasons for the increasing difficulties Ontario mining has in meeting competition from new foreign sources is apparent from this diagram, which shows in constant-dollar terms the decline in unit value per ton hoisted since the boom years of the early part of the century.

Over this period the mix between different metals has shifted. In the early years, the high value was strongly influenced by some very rich silver mines that played a much greater role than they do now.

That our industry did as well as it did is attributable almost entirely to the increase in productivity caused by mechanization and automation. In the post Second World War years, a typical miner commanded equipment worth from several hundred to a few thousand dollars. This value has today increased to several tens of thousands to more than \$100,000.

Thus mining has maintained its role as a leading source of net export income for Ontario. From 1975 to 1983, average annual metal exports were valued at \$2.2 billion. During this period, 84 per cent of Ontario's metal production was exported. During 1982 and 1983, the value of metals was greater than the value produced in those years because inventories were reduced. The export contribution of the mining industry becomes even more important when one considers that numerous other mineral products are exported. Together, these mineral exports have helped significantly in keeping Ontario's trade deficit to \$5.7 billion--the annual average from 1975 to 1983.

While on a world scale Ontario's role as a metal producer has declined in relative terms, its importance as a supplier to US industry is more significant than in the past.

Figure 14 shows the nine major metals we export. It shows Ontario mine production, US apparent consumption, US net import reliance, and the other major exporters to the US. Apparent consumption and US net import reliance are represented as defined in mineral commodity summaries for 1985 by the US Bureau of Mines.

Given the location and political problems associated with other foreign suppliers--there are a number of other countries mentioned there--it is clear that, for strategic purposes, the bulk of US net import reliance could conceivably be covered by Ontario mines for the nine major metals in this table.

The overall performance of the industry is determined to a very large extent by the price of metals which, as Dr. Mohide suggests, are set in international markets. While the real metal prices of most major base metals have shown secular declines, steep drops did not materialize until the early 1980s. Here we

have, for the post-war period, four major markets: nickel, copper, zinc, and gold. The price of copper in real terms is at its lowest point in 50 years, while prices of nickel and zinc have gone down to near 30-year lows. The price of gold, after remarkable increases in 1979 and 1980, has been declining steadily. It is currently at less than half of the previous peak price of US\$850 per ounce recorded on January 21, 1980.

We should add here that gold is perhaps the only metal whose price has been influenced significantly by governments over extended periods. The gold price was fixed and supported initially by the Bank of England from 1820 to 1934. Then the US government took over as a buyer of last resort for an increase of more than 66 per cent in the guaranteed gold price. In Canada, the Emergency Gold Mining Assistance Act took over right after the Second World War, guaranteeing gold producers a minimum return, essentially calculated on a cost-plus basis. Emergency gold mining assistance ceased in 1972.

A word should be said about uranium. Its price in the spot market is about one third of its previous high in the 1970s. Since much of the uranium is traded on long-term-contract bases, the spot price is not truly representative. Similarly, the posted price of iron ore is a transfer price among participating companies and as such does not reflect a true market price.

2:20 p.m.

Mr. Taylor: You mentioned uranium. According to the previous chart, about 50 per cent of the employment in the Elliot Lake area is dependent on uranium. Two mines are mentioned, Rio Algom and Denison.

Dr. Anders: Yes.

Mr. Taylor: They were virtually bought out by Ontario Hydro.

Dr. Anders: There are a number of foreign contracts that buy from them, but the bulk is certainly purchased by Ontario Hydro.

Mr. Taylor: Presumably there is an artificial price for their production because of the long-term contracts.

Dr. Anders: That is correct.

Mr. Taylor: Hydro consumers are supporting the labour force, or I suppose, subsidizing it.

Dr. Anders: That may be true at the present time. However, long-term contracts are involved. You never know for sure ahead of time who will gain and who will lose four or five years in the future.

Mr. Taylor: However, we have discovered there is nothing rare about uranium around the world. There is all kinds of it.



Dr. Anders: Today it is not. I believe that picture looked quite different in the 1950s. If ore deposits of the Elliot Lake type were discovered today, they would not be developed.

The next picture provides a very long-term perspective on metal prices of almost a century and a half. It shows how trends of inflation, as represented by the wholesale price index, WPI, and of real metal prices compare in the aggregate. For a measure of the latter, a special index which was not volume-weighted, was constructed. The clear message is that while in the past some inflationary spurts were accompanied by real metal price increases, such as the mid-1940s to the early 1970s, the early 1860s, and the First World War and Second World War periods, metal prices essentially follow inflation. In the long run, inflation or not, real metal prices exhibit an inexorable downward trend, which we cannot expect to see reversed, as was believed some years ago.

Mining is a high risk enterprise, requiring large expenditures for exploration and capital investment before any return is seen. Even in the face of these price trends, investment in Ontario has held its own and has not done too badly.

Annual investment in mining in Ontario averaged over \$800 million between 1979 and 1983. Investment in 1984 is estimated at \$1 billion, making the mining industry the second largest employer of new investment in Ontario's primary industries. If mining investment is augmented by investments in related industries, such as primary metals, metal fabrication and nonmetallic mineral products, then it becomes the fourth largest employer of new capital in the whole of the Ontario economy.

Although many of Ontario's mining operations suffered losses during the recession, by 1984 most had regained some profitability and Inco had significantly reduced its losses. The bracketed numbers are losses, so Noranda is recovering very well. With Kidd Creek, a somewhat peculiar situation was involved in the reorganization. Inco has at least reduced its losses and Falconbridge turned profitable in 1984 after a number of years of losses.

As to sources of investment, the level of foreign ownership of major Ontario metal producers cannot be considered a problem. This chart shows the percentage of common shares owned by Canadians, or at least by persons with Canadian addresses--which would be more correct. It is not possible to go further because the number of Canadians owning shares cannot be recorded. This number is very high, between 90 and 100 per cent, except in the case of Inco, which it is still 44 per cent.

This is to some measure offset by Canadian investment abroad, again by mining companies. We refer to identifiable known Canadian assets held on December 31, though some Ontario-based corporations may have other assets that are difficult to track down. However, this plays a significant role in providing Canadian companies with a foothold in foreign market areas, particularly in the common market in Europe. In relation to these companies' Ontario or Canadian assets, the foreign holdings on this table are not very significant.

Today there is considerable concern about the recent shift of western European exploration and investment activity from North America to the underdeveloped world and, in Europe, to the formerly virtually ignored countries of Spain and Portugal.

According to data issued by the Comité de Liaison Industries de Metaux Non-Ferreux de la Communauté Européenne in Brussels, in 1976, of exploration expenditures on all non-ferrous metal projects, excluding uranium, 89 per cent were in developed countries and 11 per cent in less developed countries. By 1983, 82 per cent of expenditures were incurred in developed and 18 per cent in less developed countries. Over such a short time, this is significant.

During this period, the total for all countries remained fairly stable at around \$250 million per year, except for 1980-81 when the total was \$350 million. Both these amounts are in constant 1983 United States dollars. While in 1976 the expenditure for Latin America was over 3,000 per cent greater than that in Africa, by 1983 this gap was reduced to just less than 75 per cent.

Much more significant than the exploration expenditures is the change in capital investments--again, for all non-ferrous projects excepting uranium. Here the expenditures in developed countries accounted in 1979 for 89 per cent of the total, only 11 per cent going to less developed ones. By 1983, the share to developed countries had steadily dropped to 53 per cent, while that for less developed countries had increased to 47 per cent.

The lion's share of the decline was borne by the developed countries and here the expenditures of European funds for development in North America declined precipitously and quite disproportionately from over \$100 million per year until 1981 to \$23 million in 1982 and just under \$5 million in 1983. The figure of \$5 million a year in capital expenditures for a whole industry in North America is virtually nothing. It is between one third and one quarter what these countries now spend in Spain and Portugal alone.

In simple terms, it was a massive switch from North America to South America and Africa. This has resulted in an increased South American and later African mining capacity to produce more ores and metals, to the disadvantage of the mining industries of Canada, the United States and Mexico. For Canada, this means increased dependence on United States markets.

2:30 p.m.

This may have been a lengthy introduction but now we finally come to the free trade issue and United States barriers. As I am sure you have heard previously, the argument for free trade rests on the principle of the division of labour and the law of comparative advantage. For countries, as for individuals, a larger joint product can be achieved if they all concentrate on what they do comparatively best, and that is determined by the market, and freely trade with others who do the same. The product thus achieved is much greater than if everyone tries to satisfy all

wants from their own production. However, constraints to free trade do exist, and, as in the case of every abuse, such as in the abuse of free trade by constraints, there are beneficiaries. The focus of this presentation becomes now free trade in minerals between Canada and the United States.

It is important that products from Ontario mines be guaranteed access to the United States. It should be noted that United States tariffs on the most important, that is, high unit value and reasonably high volume mineral commodities are not considered onerous, with the possible exception of those on magnesium.

You have here six major metals for which the problem of United States tariffs is a relatively minor one. For nickel, in all forms, it is free. On the right-hand side you see the percentage of United States imports from Canada, not necessarily from Ontario. It would have been preferable to provide that figure, however export figures are reported statistically by port of lading and not by province of origin. In any case they are notoriously unreliable, as was documented some years ago by the great mathematician and economist, Oskar Morgenstern. His conclusion was that trade statistics practically are not worth the paper they are written on.

So here we have the major groups: platinum group, ore, metal and scrap are all free; gold bullion is free; silver bullion is free; cobalt, ore, concentrate, metal, waste and scrap are free; and cadmium, either in dust or metal form is also free. In the case of gold, 59 per cent goes to the United States. Again, this figure is for Canada, not necessarily Ontario's production. Of the platinum group, nine to 11 per cent goes via the United Kingdom, and that all comes from Ontario.

The next slide shows another group of metals where tariffs are somewhat more of a problem. For zinc, ores and concentrates, it is today 0.44 cents a pound to be reduced to 0.3 cents a pound. For lead, it is 0.75 cents per pound which will remain the same. Iron and steel: pig iron is free, structural steel is 0.9 per cent ad valorem, and iron ore, again, is free.

Copper ore is free; it is 1.2 percent of the copper value contained in blister and one per cent for refined copper. The biggest problem is magnesium, which in its unwrought state is now charged 13.5 per cent ad valorem tax to be reduced to eight per cent, which would still be quite significant.

Those are the tariffs that in any negotiations, the Ontario mining industry would be most concerned about and that we certainly are most concerned about in the interests of our northern mines. In addition to these tariff barriers, there are a number of nontariff barriers such as quotas. They did play a role in zinc. There are also absurd or costly regulatory requirements, transportation restrictions, building codes, specification differences. They are perhaps by and large of greater concern today for Ontario mining than tariffs themselves, again with the exception of magnesium.



Approximately 25 states in the United States have erected some form of barrier to imports, not necessarily metals or minerals, and there is widespread concern in the Canadian industry that this form of protectionism will spread at both the state and federal levels. However, a US federal trade agreement with Canada could render state-sponsored protectionism of this kind ultra vires. I am not a lawyer and that is something which involves constitutional issues in the United States and should be discussed by a specialist in that area.

In the USA there have been a number of attempts over the years to introduce legislation to restrict metals trade to protect US mines. The patterns of such legislation have been quite consistent. Usually, the representative of a mining constituency faced with mine closure introduces a bill in the House of Representatives or the Senate. It is discussed. It is usually vehemently opposed by the manufacturing interests that are buyers of the commodity and it typically fails.

These are measures in addition to the tariff measures that have been proposed. They are in addition to the measures on the last two slides. This process was documented for the past 10 years' for major bills of this nature in our most recent mineral policy background paper.

As regards legislation now before the United States House of Representatives or Senate, with respect to federal laws we have Senate Bill 262, which Senator Robert Byrd introduced in January and which was referred to the finance committee.

House of Representatives Bill 976, introduced in February, has been referred to the international trade subcommittee of the ways and means committee. Both bills respecting the Fair Trade and Ferroalloys Act would establish breakpoint tariff mechanisms whereby federal ferroalloys entering the USA below an established fair market price would be assessed a tariff automatically; these would be tariffs in addition to those discussed.

Next, specifically with respect to copper, House of Representatives Bill 1520 was introduced by Representative Morris Udall in March, was approved by the House interior and insular affairs committee and has been forwarded to the ways and means committee.

Bill 627 by Senator Pete Domenici was introduced in March and is in the finance committee of the Senate.

Both Mr. Udall and Mr. Domenici represent copper mining constituencies. Most bills respecting a National Copper Policy Act would require the president to open negotiations with major copper-exporting countries to limit their output to 1983 levels for the next five years. Nations that refuse would be assessed a 15-cent-per-pound tariff. A 15-cent-per-pound tariff would be just terrible under today's prices. It would be about a 25 per cent tariff. About 25 per cent of US copper imports come from Canada, and Ontario is a major exporter to the US.

These bills clearly were not directed specifically at

Canada; they are primarily directed at the government of Chile and its copper production.

Mr. Chairman: How do they rationalize the five years? Is that to upgrade their systems or mines or is it to enable the company to make some money and get out of mining?

2:40 p.m.

Dr. Anders: It could well be the latter. It could also be that they hope copper prices will increase. I really would not like to speculate as to what is in the minds of the promoters of those bills.

Mr. Chairman: I notice it is the same term as the steel bills.

Dr. Anders: It is similar.

Last, we have in the same category a bill dealing with mineral trade, which would include all ores, concentrates, unwrought metals, alloys and primary fabricated shapes. It was introduced by Representative Murtha very recently, on June 19, and has been referred to the ways and means committee. It would broaden and strengthen antidumping and countervailing laws.

That may present a rather grim or ominous picture, but I would like to refer to some quotes by Professor Daniel Fine of the Massachusetts Institute of Technology. He recently made four points with respect to United States-Canada mineral trade in a paper originally presented two years ago and updated in the last six months.

First, "United States-Canada trade and interdependence is a higher priority than natural resource ownership discrimination" between Canadians and others. That is something we have not had in the past. Discussions of measures along these lines are reported and debated hotly in the United States.

Second, "In a direct conflict with Canada over natural resource ownership in the context of economic nationalism, the United States will probably not retaliate in a mirror manner but rather will seek adjustment or change through international agreements and fora."

Third, "The 'North American Accord' of the Reagan administration reaffirms a United States global strategy in which limited 'hemispheric self-sufficiency'--the word used here, 'hemispheric,' should be semi-hemispheric, as it pertains to Canada, the United States and Mexico--"is assumed in the event of war with the Soviet Union."

Fourth, and perhaps for us of greatest importance, "The contraction or eventual demise of the United States mineral exploration, development and production within its frontiers is not viewed as a long-term crisis of national security as long as there is an anticipation of access to Canada and the availability of its production."

It is important to keep in mind that such a position, which is very favourable to Ontario's and Canada's interest in any negotiations on free trade and its constraints, could change. In that area nothing is forever cast in stone.

In closing, I would like to recall a quote of over 200 years ago by David Hume, one of the fathers of classical liberalism, in figure 22 of my brief. The abuses we are talking about are constraints to free trade. Their reduction or abolition is liable to hurt some and those few who are hurt will protest loudly. David Hume talked about the abolition of monasteries under Edward VI. Clearly, the people in the monasteries complained loudly, but the rest of the country did in the end benefit greatly.

While the administration of some balm may be justified to ease the pains of transition for these few who may be hurt by reductions of constraints to trade, the guiding principle should be the greater benefits to be gained from the abolition of constraints to trade for the vast majority of society, although such gains will be diffuse in nature and somewhat slower in coming.

I should add that we feel it is inappropriate in these discussions to rely too much on specific quantitative data derived from econometric models, which are notoriously unreliable. They are usually based on static models, not on dynamic models, and are misleading as likely as not. They are the kinds of models by which literally anything and everything can be proved.

Mr. Hobbs: I would like to make a very brief summary. It probably has been evident to the members of the committee from the comments by Dr. Mohide and Dr. Anders that the secure access to the American markets for the products of the Ontario mineral sector is very important from the standpoint of the Ontario economy and, in particular, the economy of northern Ontario.

Generally, as I think has been presented, we in the mining industry do not view the level of United States tariffs that exist right now to be onerous. They are considered to be an acceptable price of doing business in the international marketplace. If you are talking about the whole question of bilateral trade relations with the United States, any lessening of the existing barriers will be beneficial; however, they are not going to bring significant order-of-magnitude benefits from the levels they are at now. It will be money in the mining companies' pockets and will improve their situation, but you are not talking about something that would produce huge order-of-magnitude changes with respect to the position of the industry.

From the standpoint of the mining industry, therefore, the main objectives should be to maintain the relatively secure access for the currently existing products of the mineral sector and to oppose any move for substantial tariff increases or trade barriers and in particular, although this is a very difficult area, to oppose the proliferation of nontariff barriers.

One final observation about any negotiations that take place with respect to bilateral trade relations between Canada and the



United States: It is fine to talk about free trade but inevitably you get into the whole question of tradeoffs.

The history of Canada-US trade relations has been one of Canada attempting to deal with specific issues and the United States attempting to get into what they call "tied solutions." It may be the tying of some economic issue to the Canadians deleting advertisements on American television stations. But this tie principle is something they have attempted. We feel that if there are any proceedings that the mineral sector is brought into, the people should be very careful and aware of the potential disadvantages that could hit the industry if there were any movement to bargain away the current advantages for the mineral sector in favour of advantages for some other sector of the economy. That inter-relationship should be observed fairly carefully.

That is our presentation.

Mr. Taylor: You have mentioned that the present tariffs are really insignificant but you also referred to nontariff barriers. Could you give us some information on the types of nontariff barriers that exist now? Presumably, you perceive some others.

We have heard about legislation being introduced currently in the House of Representatives and the Senate, whether it is on copper or alloys. We have just gone through the fair trade in steel bill. If one of those bills does go through then you will have the administration of that if you are talking about quotas, import quotas, say. That whole administration can in turn become a nontariff barrier in impeding the free flow, both ways across the border.

I wonder if you could comment on that type of thing, especially in regard to the type of nontariff barrier that exists now.

2:50 p.m.

Dr. Anders: The major concern over nontariff barriers would be over threatened quotas. That has been an important issue over the last couple of years, I believe the copper industry, in particular, was pushing for copper quotas. However, these measures were vigorously opposed by American copper-consuming interests. Nothing came of it. As far as we are aware, in such proposed legislation there would have been a grandfather clause protecting Canadian exports.

There is a uranium quota by America provisions, and as far as--

Mr. Taylor: Do you mean that at present there is a uranium quota?

Dr. Anders: I believe so, yes.

Mr. Taylor: That is a special situation anyway. We have the federal regulation regarding the export of uranium, do we not?

Dr. Anders: Yes, uranium is a special situation.

Mr. Taylor: Then is it more the anticipation of nontariff barriers rather than existing nontariff barriers that concerns the industry?

Dr. Anders: While I cannot act as a spokesman for the industry, I believe it is more the anticipation of what could happen.

Mr. Hobbs: It is uneasiness regarding what appears to be an expansion of a variety of nontariff barriers, particularly those that have been developed in individual states. It is a move the industry sees developing.

Mr. Chairman: So your message to us is to try not to rock the boat?

Mr. Taylor: Or to go even further, by not rocking the boat you might want to enshrine the principle of free trade by treaty. That way you ensure that security of the market will not be continually threatened by bills being introduced. At least the bills will not go anywhere because they would be confronted by the treaty. I suppose a lot of these are political moves, but it may very well be that something might slip through some day depending on how close you come to an election.

Mr. McGuigan: Before you go ahead I would like to ask a supplementary question. You spoke of quotas as being nontariff barriers. Are quotas not tariff barriers?

Mr. Taylor: Mr. Chairman, if I may interject here: I said that once you impose a quota, you must administer that quota system. Then, within the administration of that quota system, in essence, you are building nontariff barriers. You could be clogging the system with the problem of borders and deliveries. There are all kinds of things that I see implicit in the process which would be tantamount to a nontariff barrier. That was the comment I made. The gentlemen may or may not agree. I think there was some indication of that.

Dr. Mohide: You cannot have both. You can have a quota, as in the copper proposal; in other words, anything down to the 1983 levels of exports to the United States, as well as an accompanying penalty if you go one centimetre over that prescribed limit in law. That is a tariff, in effect, because if you do deliver that extra pound you incur the tariff, probably on the whole amount. The network of powers available to the United States government is enormous.

You can have quotas where the federal government sits in silence. In nickel, for example. If there were a large nickel mine in the United States the defence department could quite easily say: "All nickel for defence must be procured domestically." That is a decision of the defence department but in effect it is a

US government ban on imports of that amount, or some parallel amount, of nickel. The powers are endless. We monitor these things so that any Jason's tooth appearing out of the ground can be identified as a concern for Ontario and Canada. Usually those are synonymous concerns.

Mr. Morin-Strom: You say that in current Canada-US trade there are no severe tariff or nontariff barriers and a significant move to free trade would provide major benefits to the mining industry. Your main concern is maintaining the current situation and not seeing further barriers being erected.

Dr. Anders discussed Europe--a major user of mineral resources--diverting its attention from North America. Is there a greater opportunity for us to increase mining production by looking to Europe, the Pacific Rim and perhaps Japan, for increased sales? Would multilateral trade negotiations be of greater benefit in opening those markets to Canadian mineral producers?

Dr. Anders: I will take those in sequence. Yes, we are concerned that the situation not get worse. That does not mean reduction of existing barriers would not be of considerable advantage. There are some nontariff barriers that should be removed.

One that hurts is the Highways Assistance Act in the US which cuts off or reduces federal assistance to states if all contents are not domestic. That probably hurts Canadian production of reinforcing steel and cement.

Another example is the stamping requirement for stainless steel tubing that ruins stainless steel. Once the steel is stamped, it cannot be exported because it is no good any more, or X feet have to be cut off before it can be used.

We certainly have taken Japan into account as a Pacific Rim market. However, Japan has very good supply opportunities from nearby countries that would not require, for example, trans-shipping. British Columbia and Alaska--there is a lot going on now in Alaska. To the south is Australia and the Phillipines. I wonder whether overemphasis on Japan would help Ontario. Attention to Japan would benefit BC and maybe Alberta.

Regarding multilateral versus bilateral discussions, I am not an international trade specialist, but on principle it is easier to achieve agreement between two people than between three or four or five. Therefore, I would assume bilateral negotiation would yield earlier results.

3 p.m.

Mr. Morin-Strom: You talked about Japan. What about the situation in Europe? Geographically, we would be competitive with South America or Africa in trying to get shipments into Europe. Is there an opportunity for us to gain market share in Europe from reduced tariff barriers?



Dr. Mohide: Canada has long since built up a toehold in Europe. There are three Canadian-owned refineries in Europe. Two of Inco's are in England; one is a nickel refinery and one is a precious metals refinery, largely platinum. The other is the refinery in Norway.

Since England is in the European common market, the British government takes a fatherly interest in that refinery. It is a British proposition. It is British metal that is coming out of that refinery, and therefore it is sold within the European Community with full protection. In the case of Norway, it is not a member of the EC but there is a very friendly attitude to Scandinavian imports and it is only a short journey on salt water from Kristiansand, where the refinery is located, to Hamburg. Therefore it is low-cost transportation.

We have those toeholds in Europe. To put it backwards, if we did not have those refineries, it would be even more difficult to sell Canadian nickel, copper, cobalt and precious metals. That is perhaps the most important way we have kept our edge in Europe, but we are faced with the fact that France, through its colony in New Caledonia, is a major nickel producer. It protects its interest within the EC and makes sure everyone is aware of that.

With the other metals, we consume far more copper in Canada than we do nickel because of the nature of the market. Then you go on with the different metals. The precious metals are always different because they are at an international price and can be sold by a telephone call. They are not a major marketing problem, although in practice precious metals, platinum-group metals, are largely marketed in Europe because the refinery is there.

Mr. Morin-Strom: Which of the two markets do we have a greater opportunity to sell more metals to, the US or Europe?

Dr. Mohide: The US market is much larger and next door. Therefore, that is the better target for most of our refined metals. But the effort to increase sales in Europe does not flag. The major companies, Inco, Falconbridge and the others--Noranda has very large trading operations in London--expend a great deal of energy in maintaining and expanding the sale of base and precious metals in Europe. It is an uphill task because all the others are trying as well. You cannot sleep at that job; you have to keep at it.

Mr. Morin-Strom: Are the tariffs higher than the levels we saw in US tariffs?

Dr. Mohide: They are not as onerous.

Mr. Morin-Strom: Many of the metals going to the US were pre-tariffs. Would that be the case in Europe?

Dr. Mohide: Mainly, that is true, although there are some complications with certain metals, certain ores and concentrates. The real point is that you have to be--and in reality we are--partly inside that market. With the US, we are outside the market looking in. That is the difference.

Mr. McGuigan: In a free-trade arrangement, we would take away our tariffs against the US. Is there a possibility of any of these ores coming our way, if we take away the tariffs we have?

Dr. Mohide: The answer is that because of the geology of the US and its possessions, it is import dependent. It does not have large nickel or cobalt mines. It has to import, as you saw in Dr. Anders's chart, 95 per cent of this, 92 per cent of that, 57 per cent of that. It has to import. In Canada, with industry and governments working together, we try to make sure we at least maintain market share and hope to increase it.

The US cannot fold its arms and say it will not import some of these metals. It has to have these metals for defence and industry. The probability of stuff coming north to Canada in the metals that Ontario produces is practically zero.

Mr. McGuigan: Sometimes geography will convince them.

Dr. Mohide: The greatest consumers of metals in the US are situated between east Chicago and Newport, Rhode Island, and the base of that triangle is roughly Pittsburgh across to New Jersey. Ontario is perfectly placed to export to all the consumers of metals, from iron for steel to all of the base metals and precious metals. We are perfectly positioned.

Mr. McGuigan: They have open-pit iron ore in the US, do they not?

Dr. Mohide: Yes, they have a number.

Mr. McGuigan: Is that not cheaper than ours?

Dr. Mohide: It is effectively cheaper because they have local infrastructure and short distances of transportation.

Mr. Hobbs: One of the problems with iron ore now is the imports from Brazil. They can import from Brazil into the Great Lakes basin cheaper than they can provide iron ore out of the mines in Minnesota to the same point.

Dr. Mohide: It is direct shipping ore; that is, something like 65 per cent pure iron of the 100 per cent ore. You can charge that directly into the furnaces in most cases. In the case of the relatively low-grade iron ore coming out of Quebec and Canada, you have to spend enormous amounts of energy and money on turning that into some form that might be suitable for furnaces, but the Brazilian and other ores coming into Baltimore and the Great Lakes do not have that penalty of capital and energy costs.

Mr. McGuigan: Is that 65 per cent pure?

Dr. Mohide: Typically, 63 or 61, it varies with the particular mine.

Mr. Hobbs: There have been a lot of mine closures in Minnesota as a result of that, and they are not very far from the area of the Great Lakes basin we are talking about.

Mr. Chairman: We will be hearing from the Ministry of Natural Resources eventually. Do you have any comments to make on the forestry industry, or is that in your purview?

Mr. Hobbs: No, we will leave that to the Ministry of Natural Resources, except to express the concern about barriers to imports in terms of the overall impact on northern Ontario. We have pointed out the employment levels in the mining industry but, quite apart from the value on that one slide, the employment levels in the forest industry in northern Ontario and its reliance on forest operations are very significant. We would share any concern they present, on the types of barriers that are being talked about, to lumber exports or pulp and paper exports.

Mr. Mackenzie: On Canadian content, or even import replacement, would you see that as a threat to more liberal or free trade, or is it sort of a nontariff barrier? What I really have in mind is the iron ore situation. The fact is that we have lost some production there and there has long been a call asking why in blazes the steel mills could not be put in a position of using more Canadian or Ontario ore?

Dr. Mohide: Do you mean the steel industry in Canada?

Mr. Mackenzie: Yes.

Dr. Mohide: Under the free enterprise system, to try to make a profit a steel company will buy its ore where it is most beneficial to itself, even though for domestic reasons it may take some domestic ore from northern Ontario. If you start to get into the arena of Canadian content, you will definitely come under the scrutiny of all the agencies in the US and countervailing measures will be taken.

Mr. Mackenzie: If we do not get into the area of Canadian content, we will have the whole auto parts manufacturing industry and the auto workers against you. Even the major steel mills now are pretty well on side in thinking there is some merit in Canadian content legislation. You are telling me it does not apply in mining. Is that what you are saying?

Mr. Hobbs: It certainly is difficult.

3:10 p.m.

Mr. Taylor: You have the steelworkers on both sides of the issue.

Mr. Finlay: Can I reinterpret your question as meaning that Canadian steel producers should be required to use Canadian ore?

Mr. Mackenzie: It is the same content legislation. I understand it varies from sector to sector and industry to industry. That is probably how we are going to have look at it. In principle, does the same argument apply that there is some sense in Canadian content or in import replacement in that area?



Mr. Hobbs: As long as you can produce a product that is competitive in whatever market. For Canada, it is primarily the North American market. If you put on content requirements, that inevitably leads to a higher-priced product which cannot be sold in the market you are talking about. Then you have a problem on your hands.

In terms of the iron and steel industry, with particular reference to the Griffith mine, which is scheduled to close next year, it gets complicated. It is not simply a question of the quality of the ore and the nature of the ore. Basically there was a transportation problem. They had to ship by rail to Thunder Bay and then by ship to Hamilton and they had an empty backhaul in their shipping which increased the transportation charges compared to what they can get out of Quebec.

Just looking at the one instance and providing some comment on the broader question of content requirements, if that is the overriding thing, as opposed to the price of the product and its competitiveness in the market, you have some potential problems in selling your product.

Mr. Mackenzie: It may not be called content legislation, but the Japanese have fairly effectively guaranteed their domestic markets through much of their industry by a variety of nondirect tariff measures.

Mr. Mohide: They have a huge market and are controlling that market. The Ministry of International Trade and Industry in Japan is the most sophisticated trade control of any country on this planet probably. You must remember that Canada is a very tiny market. If you start to put labels on things, such as Canadian content of so much per cent on all Canadian steel, you put into hazard the very significant, most valuable things to Canada, such as steel exports to the US.

That would be put in hazard immediately because it would be regarded as a questionable act. I can use no other adjective. It would be in the direction of counterproduction. It would be all right to deal with it if you had all-Canadian steel going only for Canadian purposes. There would be the beginning of an argument then. Since you are dependent in running a steel company on making a profit by selling a great deal to the United States, you have to be careful not to cut off your nose to spite your face.

Mr. Mackenzie: There seems to be a little bit of skating generally. I know the concern over some of the trade and tariff and dumping problems, having met with some of the top people in the last few months from both the steel companies in Hamilton. I also know they have been on record as supporting the content legislation in the auto industry. It seems to me there is some validity to the argument of content legislation.

Mr. Mohide: Remember there is free trade in new automobiles between the two countries. There is no barrier. That is a unique situation, rather like agricultural machinery. In practically nothing else do you have a totally free market across the border.

Mr. Hobbs: The steel industry is a little bit different in the sense that there is more vertical integration. The production process follows on further than with most of the other metals.

Most of the mining companies in Canada are geared to producing ore, milling it and having some level of processing, but most of it is shipped out. They do not produce the end product. In the steel industry there is a higher degree of vertical integration. In Algoma, for example, they have the mine. They have the operation in Sault Ste. Marie which turns the metal into specific products. A lot of the other mining companies, talking about Canadian content, do not have the fabrication plants. What is done with the ore is done by somebody else. In the steel industry, as I say, it is a little bit different.

Mr. Morin-Strom: One of the objectives for northern Ontario is encouraging the refining and secondary manufacturing of products from our resources. Do you see that from moving towards free trade? Could that in any way shift manufacturing facilities to northern Ontario to give more diversification to the economy there, which should be an objective of our policy for northern Ontario? How can our trade policy be used to encourage refining and manufacturing within Ontario itself?

Dr. Anders: Refining can perhaps be increased to some extent here and there. I think manufacturing in northern Ontario is somewhat doubtful, if for no other reason than that the local labour markets are too small for major manufacturing. Also, one likes to locate manufacturing close to the final product market. That does not exist in northern Ontario.

We should keep in mind that by the conventional measure of the value of any industry, it is better that we mine, rather than refine or manufacture. The measure is something called value added per worker. The value added per worker in mining is significantly higher than the value added per worker even in refining and certainly much higher than in manufacturing. A job shifted from mining to manufacturing means less income, whereas a job shifted from manufacturing to mining means higher income. Typically, the wages paid to a worker bear some kind of direct relationship to the value added to the product in the job in which he works.

Mr. Hobbs: Mr. Morin-Strom, I think it would highly desirable to get a Toyota plant in Sault Ste. Marie; I really do.

In terms of what we are talking about, the areas that have more impact on the issues you are raising have more to do with industrial policy and economic development policy than they do with trade policy. Any time you reduce trade barriers, you are giving the same advantage to a company in southern Ontario as you are in northern Ontario. You still have the same competitive disadvantages of distance, labour force and that type of thing. I would view development in northern Ontario along the lines of what you are talking about as having more to do with industrial policy and regional economic development policy than trade policy per se.

Mr. Mackenzie: I am not at all sure that we are not missing the boat a bit, and that what we need to be looking at a little more is a regional industrial policy for Ontario, including the north, and not put all our eggs in one basket of how in blazes we are going to work out the tariff or free trade argument, as we seem to be doing at the moment. We do not want to become another bit player on the international scene in terms of free trade. I want something that is going to mean something for jobs.

Mr. Hobbs: That is a legitimate comment. There has to be a balance. The question of free trade and bilateral trade has more to do with southern Ontario than it does with the development of the economy of northern Ontario. If you are going to look at that, that is fine, but there has to be a balance in regional economic development policy for part of the province where the conditions and the nature of the economy are very different.

Mr. Chairman: That was very helpful and I appreciate the effort you have put forward.

Members of the committee, it has occurred to me over the course of the deliberations this morning and yesterday--and I am open to suggestions--that there is an area in which we may be somewhat stymied unless we hear more information from witnesses in the future. It does not sound as if this information is available, so we may be somewhat stymied in learning about the area of adjustment costs in capital and labour to Ontario particularly, if free trade comes about. Unless I hear strong objections, over the next couple of days I intend to see if we can find sources to obtain some work on that area so it could be available to us.

I got the impression yesterday from the witness the Harris-Cox report does not take that into consideration. It was referred to this morning as the major cause for alleviating concerns in that area. If the commission has not really looked at the problem perhaps somebody should. These are the issues we are looking at and, in any event, they may well be decided in the next several weeks with news the Macdonald commission report is coming down and so forth, so it would seem to be important to our province to find a better research so that we might determine, perhaps on a sectoral basis, what the results really will be.

Does that sound reasonable?

Mr. Taylor: It is admirable.

Mr. Chairman: Maybe it cannot be done.

Mr. Taylor: We heard some generalizations this morning with respect to net change. If we are going to measure adjustments, we must know what the impacts are. I think we are well intentioned in pursuing that. It is difficult to envisage what specifics we might discover.

Mr. Chairman: It may be there are so many hypotheses it is impossible, but I think we owe it to the committee to at least try to find out if that sort of research can be done.



Unless there is other business, we will adjourn until Monday morning at 10 o'clock.

The committee adjourned at 3:24 p.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, JULY 29, 1985

Morning sitting



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From the Ministry of Natural Resources:

Armson, K., Executive Co-ordinator, Forest Resources Group  
Wardle, B., Industrial Liaison Officer, Wood Allocation Section,  
Forest Resources Branch



LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, July 29, 1985

The committee met at 10:10 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: This morning we have with us the representatives of the Ministry of Natural Resources, as is indicated by your agenda. Kenneth Armson, executive co-ordinator for the forest resources group, is seated facing me, and Bill Wardle is going to be running the slide projector.

They have indicated to me that they have a presentation that would not take a terribly long time to go through if we were mute but they welcome our interruptions and questions as they go along.

MINISTRY OF NATURAL RESOURCES

Mr. Armson: Thank you very much, Mr. Chairman and members of the committee. As you have indicated, Mr. Wardle and I are here on behalf of our deputy, Mary Mogford, to speak on the subject of forestry. I think it is important to make you aware of the mandate for forestry within the ministry. I will run through our objectives. We have on the screen the key pieces of legislation which provide the authority under which we operate.

It is a three-part mandate with respect to forest resources--first, to provide for a continuous contribution to the economy of Ontario by the forest-based industries and to provide for other uses of the forests through sound forest management and environmental practices; second, to ensure that a continuous supply of wood is available to meet the wood volume target required by the industry for the year 2000; and third, to promote as full utilization of the available forest resource--that is wood volume and land area--as is commercially possible.

The allocation of wood on crown lands is provided for under the Crown Timber Act. The various regulations; forms of licences and regulations associated with them; charges; provisions under licences or agreements for licensees' or agreement holders' obligations; the regulation of measurement or scaling; mill licensing, and wasteful practices are also covered by that act.

The Forestry Act provides primarily for programs on private lands. I should make the point that, although it varies from year to year, somewhere between 15 to 25 per cent of the wood flow into the mills of Ontario has come from private lands--it has been as high as 30 per cent. So, under the Forestry Act we have authority for programs in the agreement forests--our agreements with municipalities and conservation authorities illustrate that type of arrangement. Wood does flow from those forests, and there is also authority for nursery establishment and stock distribution.

The Trees Act relates primarily to municipalities where they have the authority to pass bylaws for the protection of trees. The Woodlands Improvement Act is, again, dealing with private land only with what we might call the smaller private owners. Finally, the Algonquin Forestry Authority Act provides for that authority, which carries out all the forestry activities in Algonquin Park.

I just want to make it clear that the responsibility for marketing and trade is not part of our mandate, although obviously we deal with it in regard to the industry.

The area of our forest estate--I will refer now to the notes--is 384,000 square kilometres of productive forest land; that is, land that is in so-called management units designated by order in council. There is, of course, some productive forest land beyond that but it is not part of the origin or source of wood fibre.

The wood fibre taken from this forest, together with wood from private forests, creates raw material for industries which, directly and indirectly, employ some 156,000 people. Half of that number, 78,000, are employed directly in logging or in the mills. There are 21 single-industry towns, mostly in northern Ontario, which are dependent on those industries.

The industries consume about 22 million cubic metres of wood annually in the form of logs, chips, bark and sawdust. The pulp industry is a large chemical consumer and the particleboard and waferboard industries are large purchasers of glue and wax. In addition, the pulp, paper and panel industries are large users of electricity and process steam.

A point I might make here is that approximately 17 to 20 per cent of the energy requirements for the forest industry are from its own material, residues and wastes.

In regard to exports, the industries are strongly export oriented, particularly to the United States of America. Product exports were estimated at \$2.5 billion in 1983, with a positive trade balance of \$2 billion. The total value of shipments in 1983 was \$7.2 billion, which accounted for 27 per cent of Canada's forest industry exports.

In Ontario, the figures we have for trade with the US can be misleading because exports are labelled as to the province of export, not that of manufacture. The converse is true for imports. Producers have told us exports from the province are principally to US buyers. There is no knowledge of the amount of wood produced in Ontario that is exported. All we have is the figures for exports from Ontario shipment ports.

Mr. Ferraro: Why do we not have those statistics?

Mr. Armson: It is because Statistics Canada does not separate that, and there is no system within the province for identifying it. A sawmill producer does not provide to us or Statscan the origin of materials produced.

Mr. Ferraro: How valuable is that statistic? Obviously it cannot be if we are not actively pursuing such information.

Mr. Armson: It relates primarily to the fact that shipments of lumber may arrive in Ontario and be transhipped to the US. There is no real identification. We know what is shipped out, but no statistic ties down what came from other provinces, particularly the west coast or Quebec.

Mr. Ferraro: So are you saying we do not need it?

Mr. Armson: Statistics are used when they are produced, but we do not know how much of the lumber produced in Ontario is exported, for example. We know how much is produced. From speaking with the major producers, we can get some sort of estimate, but there is no documented statistic.

Mr. Ferraro: I hate to harp on this, but why would Ontario authorities not want to know that statistic?

Mr. Armson: I think it conceivable the Ministry of Industry, Trade and Technology might be interested in that. Our mandate is to produce wood for the industry. We have some interest in it, but we rely on Statscan for the export data.

In the case of lumber, there are some offshore shipments of hardwoods and white pine. It is very minimal. However, there are virtually no exports of commodity-type construction lumber. The principal factor which militates against offshore sales of low-value products is lack of inexpensive access to shipping. In the past few years, Quebec sawmillers have enjoyed moderate success in western European and Mediterranean markets.

Three or four years ago, one or two of our sawmills were involved in the sale of lumber to North Africa and, according to them, they had some rather unpleasant experiences. The lumber manufacturers are not interested in offshore movement of their product.

Mr. McGuigan: When you use the term "offshore", are you excluding the US?

Mr. Armson: Yes, that is correct.

Currency values have markedly affected export sales. A 74-cent Canadian dollar compared to the US dollar has enabled Canadian lumber exporters to gain and maintain a market share in the US.

We have a slide which graphically shows this. You can see there is a fairly clear relationship with respect to upward movement and the value of the US dollar.

The appreciated values of the Canadian and US dollar as against other currencies have led to the circumstance of the North American producers being priced out of the European Community market for lumber, pulp, and newsprint. Scandinavian shippers have



increased newsprint market share in the western US because of the high value of the US dollar.

10:20 a.m.

Canada-US relations have been affected in recent months by increased protectionist fervour in the US Congress, with the heaviest attack aimed at restricting Canadian exports of softwood lumber. In the last three to four weeks, there has been quite a spate of articles in the newspapers on the subject.

The settlement of the lumber trade dispute has such a high profile that it is possible bilateral talks will be postponed until an accord is reached on lumber. The US industry, having lost about five per cent of the domestic market share in the past five years, claims that provincial governments subsidize lumber exporters, that the subsidy is unfair and that some action should be taken to reduce Canada's market share. Not unnaturally, the Canadian response refutes the subsidy allegation.

Two and a half to three years ago, the United States International Trade Commission conducted hearings on this matter of subsidy and came to the conclusion that no significant subsidy existed.

While the focal point of the dispute is lumber, other log-using industries may also be at risk.

Mr. Chairman: I have heard of stumpage fees. What are they?

Mr. Armson: Stumpage fees: that is the amount of money a licensee pays to whatever province he is in on a unit volume of wood. It is the royalty or the crown dues. Currently in Ontario, the base rate for softwood is approximately \$2. It varies a little whether it is an integrated or nonintegrated licensee. It is \$2 per cubic metre and that is subject to a double indexation. As the price of lumber goes up, there is an index factor that has a multiplier of two in it. The direct revenues, base stumpage plus the amount due to index, come to the province.

If the price goes down, similarly, the double indexing applies, only it is in a downward fashion so the producer pays less. It is directly hooked into the price of lumber in the marketplace. The same thing applies to newsprint and pulp.

Mr. Chairman: This is done everywhere, not only in Ontario.

Mr. Armson: No. The stumpage and the double indexation are peculiar to Ontario. Other provinces have other systems. They still call it stumpage.

In this province and in a number of others there is a further direct revenue, which is the area charge. A licensee has so many hundreds or thousands of square kilometres under licence. They pay a certain fixed amount annually for the privilege of

having that area under their control. That is called an area charge.

Mr. Taylor: Is that basically the difference of approach, that one is based on the number of square miles of area to be worked and the other is based on the wood taken out?

Mr. Armson: They are related. The origin of the area charge--it goes back to 1849--was when licensees held licences from the crown and they held very large areas. They paid only for the wood they cut. Shortly after the initial Crown Timber Act, they put a charge on the area to try to reduce the size of area a licensee would hold. Historically, that is the origin of the area charge.

Mr. Taylor: That is not in Ontario.

Mr. Armson: That is in Ontario. Our direct revenues to the crown--

Mr. Taylor: You have two factors: one is an area charge and the other is a volume charge.

Mr. Armson: That is right; stumpage.

Mr. Taylor: You compared that to other provinces. My interpretation was that Ontario has a singular approach that is different from other provinces.

Mr. Armson: The indexation is different.

Mr. Taylor: The indexation is on the volume.

Mr. Armson: That is right.

Mr. Taylor: What about the other provinces?

Mr. Armson: Some of them have area charges. The use of an area charge is fairly common.

Mr. Taylor: What do the other provinces do? Are they similar to Ontario?

Mr. Armson: It varies with the province. In Alberta, for example, in its forest management agreements it negotiates a stumpage price for wood up front for a period of 20 years. Normally, that is a very low amount because the licensee or the agreement-holder undertakes other obligations.

What I am saying is you cannot compare a stumpage price directly. In other words, in Alberta, Procter and Gamble of Grand Prairie may pay \$1.70 a cunit for stumpage, and that would be somewhere around two and a half so it would be about 50 cents or 60 cents a cubic metre, whereas our people are paying \$2 plus the indexation which right now brings it to about \$3.50.

Mr. Taylor: But there are other factors that you mentioned. I am sorry to labour this, but if we are accused of

subsidy, I would like to know who we are, whether it is Ontario, one of the other provinces and so on. I appreciate the softwood industry's problems and the dispute over a number of years which is still going on, especially as it relates to the west coast. What you are saying now is that implicit in some of these charges are conditions--I am reading between the lines--but the conditions may be reforestation, field work, maybe roads.

Mr. Armson: That is correct.

Mr. Taylor: It becomes a little more confusing then.

Mr. Armson: It is, and a direct comparison, just using simple stumpage values, province by province, would not present the picture. What were the obligations and what were the revenues?

Mr. Taylor: There is no common denominator going across Canada in terms of what actually is the cost of the right to cut trees.

Mr. Armson: Not unless you take all the other factors that are basically province by province that may be entered into in various forms of agreements. I should say that at the time of the international trade commission hearing, the focus of attention in terms of subsidies and the US market has been British Columbia, because British Columbia produces two thirds of all the lumber that moves into the US from Canada.

Mr. Taylor: What about plywood?

Mr. Armson: It is really a minimal factor. Plywood and waferboard are not major factors.

Mr. Wardle: On the question of plywood, there is a 20 per cent duty on plywood going to the US which effectively kills off any softwood plywood shipments going south.

Mr. Taylor: I guess there is a world problem there too. With the policy of countries not to permit the export of logs, they converted to plywood and we have a large oversupply of plywood.

Mr. Armson: Yes, and its place has also been taken by particle board and waferboard and other materials.

Just for your information, we have on the screen delivered wood costs and stumpages. These were comparisons and it is maybe not so clear but for the northwest and--

Mr. Wardle: You may not be able to read the bottom lines here. This is information given to the US government by the Canadian industry. It is in the direction of saying delivered wood costs are more important than the stumpage number, be it \$1 or \$10. In Mount Baker, here, the stumpage is about \$90 per 1,000 board feet of lumber out. In Vancouver forests it is around \$40. However, for this \$90 the US Forest Service will build roads for the US company harvesting logs in that forest. In the Vancouver forest the company has to build its own roads up the mountains.



The net result is that delivered wood costs to mills are about \$100 to \$152 in each. In like fashion, between Maine and Quebec, we have a stumpage price here in Quebec of \$10, delivered wood to mill of \$140. In Maine the stumpage is \$40, the same delivered wood cost.

Mr. Taylor: That depends on how creative your accounting is, though; it is not just building roads.

Mr. Wardle: It is building roads and other commodities.

Mr. Taylor: When you start doing the accounting on that to find out what the delivered costs are, you do not know what is factored in there. You may know, but I do not.

Mr. Wardle: The consultant who did the work tried to balance out the costs as between Canada and the US in comparable forests, comparable logging conditions and comparable timber stands.

10:30 a.m.

Mr. Taylor: What you are arriving at is a delivered price at the mill.

Mr. Wardle: At the mill.

Mr. Taylor: It is a question of what is factored into that formula to come up with that delivered price. I am suggesting it depends on how creative the accounting is.

Mr. Wardle: That is correct.

Mr. Ferraro: Are these figures exclusive of exchange rates?

Mr. Wardle: This is in US dollars per thousand board feet.

Mr. Ferraro: It is in US dollars for both, so the exchange rate obviously is considered.

Mr. Wardle: Yes. How they arrive at the appropriate exchange rate, I do not know; it is the Bank of Canada's spot index, etc.

Mr. McGuigan: The problem is that, whether it be us or the Americans, in figuring countervailing, neither side takes into account the other side's pluses on the accounting scale. Everybody starts from ground zero and says, "Those people deserve a countervail of so much," and ignores his own pluses. That is the problem with countervailing.

Mr. Armson: Perhaps I could respond to Mr. McGuigan's comment. That is true. In the countervailing sequence, Canada cannot raise the issue of what subsidies are paid in the US. That is not for discussion. You are always dealing with an investigation; say, by the US of Canadian subsidies. You are

dealing with only one side of the picture and you are basically not allowed to present the other.

Mr. McGuigan: It starts from zero.

Mr. Mackenzie: In other words, the fact that they are putting roads in does not enter into it.

Mr. Armson: That is correct.

Mr. McGuigan: The accounting is all done from zero.

Mr. Armson: Yes.

Mr. Ferraro: Is that not discussed at the hearings?

Mr. Armson: As I mentioned, at the hearings, to the Americans this is not relevant information.

Mr. Ferraro: Obviously it is relevant to Canadians.

Mr. Armson: Very much so.

Mr. Ferraro: Are you telling me we do not bring it up?

Mr. Armson: It can be brought up, but they just do not discuss it.

Mr. Ferraro: Do we bring it up?

Mr. Armson: It has been brought up many times, particularly the question of delivered wood costs. The point has been made, but in terms of their hearings they do not consider that.

Mr. McGuigan: It is apparently not part of the General Agreement on Tariffs and Trade. They stand strictly on the terms of the GATT agreement.

Mr. Armson: Yes.

Mr. McGuigan: I guess that was an error made when we agreed to that back about 1948 or whenever it was.

Mr. Chairman: We have had real problems with agricultural products.

Mr. McGuigan: Hogs are the same thing.

Mr. Ferraro: Mr. Chairman, if I am off the topic rule me out of order. Can you give me some idea where a midwestern state in the US would want to import from--Quebec or British Columbia--aside from the distinction between US and Canadian prices?

Mr. Armson: The midwest would import some from Alberta, but BC would be the major supplier.

Mr. Ferraro: Because of costs.

Mr. Armson: Yes. They could ship it in.

Mr. Ferraro: It is cheaper to get it from BC than it is from Ontario or Quebec.

Mr. Armson: If you are in the midwest.

Mr. Ferraro: Take the midpoint. What I am trying to ask is, where is it cheaper? Are we competitive in Ontario compared to BC?

Mr. Taylor: It would depend on what type of lumber you want.

Mr. Armson: This would probably include a fair amount of Quebec material as well as Ontario lumber; we export from Ontario to the northeastern states such as New York--that mainly is from Quebec there but we have some exports there--but mainly to the southern and southeastern states as well as the Chicago market. That would define the main area to which Ontario lumber production is moving.

What complicates the factor is our understanding that in the US, builders of houses, particularly in the southern and southeastern states, prefer the spruce fir two-by-fours. They are easier to use in nailing. They are also either the same price and a more useable article or, if there is a small premium, they consider them a more suitable article than loblolly pine, which is harder and more difficult to nail. We have entered the market with a material--

Mr. Ferraro: We are not in competition with any other province as far as products we export to the US are concerned. Is that what you are saying?

Mr. Armson: Quebec would really be the only one.

Mr. Ferraro: Is Ontario competitive with Quebec?

Mr. Armson: Yes, we would say so. As I mentioned, the only market the Ontario producers feel they cannot get into is that offshore European market. They have to ship through a Quebec port to get there. That puts the price up and they cannot compete.

Mr. Taylor: You mentioned the displacement of our market in Europe is because of price. Is that the only factor or are there other factors?

Mr. Armson: That is the main factor for lumber, but with regard to the European Community, there are limits on the amount of Canadian newsprint, for example, that can be shipped there. So there is an arbitrary limit.

Mr. Taylor: It came through to me that price was the only factor.



Mr. Armson: I believe that would be a fair statement for lumber.

Mr. Wardle: There is another factor as well. The Europeans do not build houses the way we do. They use two courses of brick rather than a wood framing system with a brick veneer.

Mr. Taylor: They have better zoning and construction bylaws, I guess.

Mr. Wardle: You tell me.

Mr. Taylor: I am sorry, I should not have. We used to build double brick here too at one time.

Mr. Wardle: Yes, we did.

In North America and in the US particularly, some 10,000 board feet of lumber goes into every single family house. Of that, 53 per cent is two-by-fours.

Mr. Taylor: Or approximately two by four.

Mr. Wardle: One per cent is two-by-threes and 19 per cent is two-by-sixes. If you take a look at regional production, 31 per cent of southern US production is two-by-fours whereas 48 per cent of production in Quebec and Ontario is two-by-fours. So there is a natural advantage, on top of the preference, for the lighter species grouping and there is also the question of volume availability.

Despite 15 years of work, the Canadian west coast industry has not been successful in getting the Europeans to use the type of construction we use. It is partly a function of cost.

Mr. McFadden: I am just curious. We are talking here about trying to convince the Europeans to do things the same way we do them. Is there a problem here with Europe in the sense that we have a different approach to manufacturing everything from houses to coffins with regard to how we finish wood, the dimensions and so on? It means we are not very competitive in Europe to some extent because we are not providing the product they want in the dimensions they want.

I am just wondering how much of a factor that is. The North American market and our standards of construction are fairly integrated. In Europe they use different standards. One of the impediments for a company looking at the wood market would be the differences in countries. Naturally there is an easier entry into the American market--our standards are similar--whereas in dealing with other parts of the world we would have to change. It is a lot easier for us not to change. Would that be accurate; that there is a bit of that as well?

Mr. Wardle: Yes, that is a valid statement. The North American industry produces a standard range of sizes--two by three, four, six, eight or whatever--and sells them according to

North American grading rules recognized by the four US building codes and the Canadian code.

The Europeans, on the other hand, produce to dimensions in which a two-by-four is a two-by-four, or 100 by 50. They sell them in odd lengths rather than the North American standard, which is even lengths from eight to 16 to 24 feet.

10:40 a.m.

Let me read from a bulletin we have here. Between 1980 and the first quarter of 1985, a specification from the west coast has increased 43 per cent, from 162 to 232 pounds, in buyers' currency. The same product in the same period, measured in US dollars, has dropped 31 per cent.

So the incentive to ship product to western Europe, in this case the United Kingdom, falls right away. It does not make sense to give up 31 per cent of your purchasing power on 1,000 board feet of lumber. You have to pay your workers in Canadian or US dollars. It does not make sense when you are already just breaking even.

Mr. McGuigan: I spent a couple of days in Britain with a housing officer a few years ago. We went from site to site while he was approving various stages of construction. There was a subsidy on everything they did over there.

They have an entirely different philosophy. They are building a house to last 500 or 600 years and they look upon a succession of generations living in it. When we put up a frame house, we only figure these two-by-fours that are 1.5 by three--

Mr. Taylor: They suffered the devastation of war. We have never known that here. We build throwaway houses. You can buy one on your way to Becker's to pick up a quart of milk.

Mr. Ferraro: Remind me not to buy your house.

Mr. McGuigan: There is one other important thing. Because of their mild winters the brick does not split as it does here. Also, with their mild, wet weather, a wooden house would rot in 15 or 20 years. They promote cedar houses because cedar does not rot so much. Most of the wood there is creosoted, which we now say is carcinogenic. Paint will not stay on wood there most of the time. It is a different philosophy of house-building from here. Also their zoning system would make ours look like a piece of cake.

Mr. McFadden: I may have missed a figure here. I know there are some problems with all statistics. What per cent of Ontario's exports of lumber products would go to the US as opposed to other world markets? Do you have at least a rough estimate?

Mr. Wardle: It is about 95 per cent.

Mr. Armson: You might as well consider the bulk of it goes to the United States.

Mr. McFadden: In view of the vulnerability to which that exposes us with respect to countervail and various other actions the US government might take in order to limit our participation in its market and help its producers, do you think there is value in Ontario trying to promote other export markets, encouraging our producers to exploit those in some way, shape or form? I do not know what programs you now have in place to do that. Do you think there is any value in that or is it an impossible dream to diversify our markets to a greater extent?

Mr. Armson: In answering that, there are two points. The Ministry of Natural Resources and the forest resources group are not really involved in marketing except indirectly. Through Mr. Wardle, we have a liaison with the industry and the Ministry of Industry, Trade and Technology and we keep ourselves aware of what is going on.

From time to time there have been requests, particularly from Europe, that we act in giving them the names of the Ontario Lumber Manufacturers' Association people, for example, who might then explore markets in West Germany. We have facilitated that kind of communication and in all cases, essentially, the OLMA members have said, "We are not really interested." I think that is largely so for economic reasons. We have been only somewhat of a bystander, trying to facilitate things that did not come to pass.

If they were to move to offshore markets, they would have to compete on our side of the country against Quebec producers who have an edge because of their location. Quebec, in co-operation with the federal government, has moved on behalf of its sawmill producers towards extending the offshore market. Quite candidly, I believe the Ontario lumber producers feel the more Quebec sells offshore the more it will provide, if you like, a portion of the existing continental market that the Ontario producers can share. I think that is the general sense that we get from the lumber manufacturers here in this province.

Mr. Wardle: I have two further points to add to that. One is that a shipper from Hearst was on a group tour of western Europe three and a half years ago. He sat down with an importer in Genoa and said, "Give me a specification and I will come back tomorrow and we will talk price." He took the specification back to his hotel room and figured out, from the stated price on the market, how much he would have to produce it for in Hearst. Working backwards with insurance, freight and transportation to port, he would have had to produce 1000 board feet of wood for something like \$6.21, dried in his yard in order to meet the price at which the Italian could buy it from Austria.

For that volume of wood his stumpage to us would have been about \$19. Discounting any haulage costs, etc., he is already \$12 in the hole for shipment to Genoa on a particular specification.

The second point for consideration is that the lumber shippers consider the North American market to be domestic.

Mr. McFadden: Our producers do.



Mr. Wardle: The American producers do not ship anything up here. In this domestic market an Ontario shipper, for example, might get a phone call that asks, "Have you got such and such?" and the caller will give specifications. The guy will say, "Yes." They will negotiate a price. It will be put on a truck the next morning and will probably be in Chicago by six o'clock at night.

From Prince George, British Columbia, they will load rail cars with specifications that appear to be selling, and they will hand a slip of paper to a salesman and say, "It is rolling; sell it," and it is rolling to Chicago. If he happens to be selling on a Friday afternoon, and Monday is a holiday in the United States, that cargo is going to hit Chicago and pick up demurrage in a railway yard, then that price will drop.

In selling to western Europe from BC, lumber is sold forward. The vendor's agent will negotiate contracts with several large importers for a quarter of a boatload of lumber for delivery. It is now July, so the contract could be for November 15 at Cardiff. The price is fixed in either the buyer's or seller's currency; it does not matter.

The vendor takes the chance that the market will be the same in November as it is today, and that the currency will not fluctuate. He can buy insurance on the currency, of course, but he is locked in to committing a particular specification to the south Wales market in November. By and large, he does not like it. He would rather sell spot, if you will, on the North American market and take his lumps.

It is a different mind set. The Europeans have been doing it for years. They have been trading in that way. Mr. Fontaine, who is not a member of this committee, runs a lumber sawmill in Hearst, or did run one, and he will tell you that the mills in Ontario, Quebec, Alberta and the interior of BC prefer not to operate that way. They prefer the domestic market, that market from here down to the Rio Grande.

Mr. Morin-Strom: How do we assure that we get a maximum amount of processing and milling of our forest resources within Ontario itself?

10:50 a.m.

Mr. Armson: We do not export logs from crown lands, they must be processed here. In that sense we ensure that the processing is done here. The second thing is, in terms of log supplies, we actually import logs from neighbouring states, particularly Michigan and New York.

Mr. McGuigan: And Pennsylvania.

Mr. Armson: Yes, some from Pennsylvania and a small amount from Ohio to some of our mills here. Most recently, there has been a real run on red oak, which has been coming in from those states, particularly Michigan and New York. That is from private land. Logs are sold from private lands here too, and we have no control over that sale for export.

Mr. Morin-Strom: Under the free trade agreement would we lose the ability to restrict the sale or shipment of raw logs into the United States?

Mr. Armson: The Americans have suggested that some reciprocity on the sale for export of logs should be a factor in conditions that might be negotiated. This is with respect to the so-called Gibbons bill and the Canada-US lumber trade.

That item has much more impact in British Columbia than it does here in terms of volume. It is unlikely that American producers would come into Ontario to buy logs because, as you saw on the chart of the cost delivery to their mills, they would be paying far more than they would by buying it in their own area.

Mr. Mackenzie: But they have suggested this.

Mr. Armson: They have suggested it but clearly, the suggestion is primarily linked to the lower mainland and the southern part of Vancouver Island. That is the area in which they have shown most interest.

Mr. Mackenzie: That is also a possible loss then.

Mr. Armson: Certainly, particularly for BC.

Mr. Mackenzie: They could be playing games, because 90 or 95 per cent of our production goes down there anyhow.

Mr. Armson: In Ontario's terms, we have not looked at it in depth but we have looked at it in two key areas, one of which is Sault Ste. Marie. Obviously, the export of logs from the hinterland in Ontario does not make sense economically, but we have looked at points such as Sault Ste. Marie and it appears our prices would be higher.

Mr. Morin-Strom: What percentage of the industry is Canadian-owned in Ontario?

Mr. Armson: In the sawmill industry, it is a little different than in the pulp industry. The majority is under Canadian ownership but I cannot give you the exact figure.

Mr. Wardle: It is 90 per cent in sawmills.

Mr. Armson: Yes, but that is lumber. In pulp and paper and newsprint, it is somewhere in the order, if I recall correctly, of 60 per cent or 65 per cent.

Mr. Morin-Strom: What kind of split is there between the volume of forest products going through the sawmill industry and the pulp and paper industry?

Mr. Armson: We have a slide on lumber and pulp and paper.

Mr. McGuigan: While we are getting the slide up on the screen, there are two mills in Elgin county in my riding that

import oak from Pennsylvania and make it into flooring, then send it back to the United States. They employ about 200 people. Raw logs come in and flooring goes back. Practically all the stuff goes back to the US, or a good percentage of it.

Mr. Chairman: How long have they been doing that?

Mr. McGuigan: Elgin has a history of hardwood manufacturing. There was hardwood there years ago but there is very little of that wood left. It is rather strange that they use US logs but they have a history of the hardwood milling industry.

Mr. Armson: This chart is in your handout but the areas are there. From crown land the volume of softwood is about 16.4 million cubic metres. That is softwood only, conifer. There are roughly another 3 million cubic metres in hardwood. That would be poplar for pulp, maple for lumber and so on. We are predominantly dealing in softwoods. Just to give you some scale, the current value stumpage, the receipts, would be \$60 million.

You are looking at 1,530,000,000 feet of lumber. It is sold in bush-feet, but we have converted that to cubic metres. So 3.6 million cubic metres or roughly a fifth of the total is in lumber. The preponderant amount of softwood volume is going into pulp and paper products.

Just to give you some idea, the export of lumber from Ontario was about 4.8 million feet for the same period. There was more lumber exported from Ontario than was produced. The difference must have come from somewhere else--4,539,000.

Mr. Wardle: In partial response to your question it is worth noting that of that softwood lumber production of 1.5 billion feet, about 40 per cent of it is produced by companies whose principal activity is producing pulp and paper.

They basically buy standing timber, haul it to a sawmill millyard and run the logs through the sawmill. They produce bark first, then lumber, sawdust and chips. The lumber is sold as such, the sawdust is burned and the chips provide furnish to the pulp digesters.

The pulp and paper industry basically did not have sawmills until about 1968. The pulp industry and the lumber industry are both cyclical. Related to each other, they are counter-cyclical. The pulp industry said to itself: "We are on a roller-coaster like this and the lumber industry is on a roller-coaster too but the phases are different. If we can get into the lumber business, we can ride the lumber roller-coaster as well and produce the raw material we ultimately need in our digesters, which is chips." They do not put logs in; they put chips in.

The curve of softwood lumber production in Ontario went from about 850 million feet in 1968-69 to the 1.5 billion we see today.

Mr. Morin-Strom: We talk mostly about the lumber industry and trade relationships with the United States. What about the pulp and paper industry? What kind of restrictions are



there right now--tariffs and non-tariffs--and what might be the need for freer trade arrangements?

Mr. Armson: With respect to newsprint and pulp, it is a free market. There are no restrictions. The only restrictions--correct me if I am wrong--would be on plywood, which Mr. Wardle has already mentioned. There is a small tariff on the waferboard. It cuts both ways. There are no restrictions on pulp and newsprint.

Mr. Morin-Strom: So it is not really an issue.

Mr. Armson: No. This is where the industry has the greatest concern because of the Gibbons bill. The bill was originally aimed at petrochemical feed stock--it had nothing to do with wood or lumber--but then the United States lumber industry got involved. It sees that as being the thin end of the wedge that could move right through into pulp and newsprint. The industry can speak for itself but it sees that bill as a prelude to some form of constraint on our newsprint and pulp entry.

Mr. Chairman: Do you have any concerns? Last week we heard that there was some concern that the United States' market in manufacturing sectors may not be expanding as quickly as other areas of the world. I take it that is not a concern you would have, especially in view of costs getting offshore.

11 a.m.

Mr. Armson: Just to come back, the markets both for solid wood, the lumber and also for pulp and newsprint, have been cyclical over many decades. Regarding pulp and newsprint, we have gone through a shortage and then a glut. It has been affected by the Scandinavians, particularly the Swedes, devaluing their krona and putting pulp and newsprint on the North American market where typically they have had very limited supplies.

The pulp and newsprint market is worldwide. Our producers, whether they be a mill in northwestern Ontario or in Thorold, are competing in a world market. New Zealand used to be a net importer. She is now an exporter of lumber, plywood and pulp and newsprint. The amount of pulp she can put into the Pacific Rim market can affect the market for the west coast. Ontario's lumber market is essentially a domestic North American one.

Mr. Wardle: There are now 17 countries shipping newsprint to the United States. There used to be only US and Canadian production. Britain exports newsprint to the US. Britain used to be a significant net importer of newsprint. They can pick up an extra \$100 a ton in vendors' currency by shipping to the US west coast, for example, compared to shipping into western Europe.

Mr. Taylor: Canada could be an innocent victim of US protectionism through legislation.

Mr. Armson: That is a fair observation and we understand, for example, that US Representative Sam Gibbons has realized that. He was aiming at Mexico and Saudi Arabia with his

petrochemical feedstock bill and picked up Canadian lumber on the way. He did not realize what he was into.

Mr. Chairman: What is our percentage of the American lumber imports now?

Mr. Armson: Right now it is 31 per cent. It was 25 per cent for some time. It is that six per cent increase that has US lumber producers concerned.

Mr. Chairman: We provide 31 per cent of their total market or of their imports?

Mr. Wardle: We being Canada?

Mr. Chairman: Canada.

Mr. Wardle: Thirty-one per cent of US consumption, assuming stock is neutral.

Mr. Knight: How much of the US consumption is US produced?

Mr. Wardle: Approximately 65 per cent.

Mr. Knight: I was not sure about Jim's statement that indicated protectionist measures may injure our exporters. That would be a fact only if there were not an equally protectionist attitude towards others who import into the US. It would not be a fact if the US relied on imports to a large extent.

Mr. Armson: The US importation of lumber is almost exclusively from Canada, whereas with newsprint and pulp we are dealing with a wider array of importers to the US. It becomes a different set of players.

Mr. Ferraro: On that issue, it was mentioned earlier that Britain exports newsprint to the US. I find it difficult to understand how Britain is capable of competing with Canada or Ontario. Obviously, it is on the basis of cost, but where is the distinction? Is it the labour cost? Is it the raw material cost? Is it transportation?

Mr. Wardle: The participation of 15 of the 17 countries in the US newsprint market took place only in the last two years when two things happened: the Swedish krona was devalued by 22 per cent in total and the American dollar became significantly stronger. I will not try to put a number on it. Therefore, when you look at trade in vendor's currency, and that is back to the mill, it becomes sensible to take a chunk, even a small one, of the US market.

I came across a silly statistic the other day: one newspaper, the Los Angeles Times, consumes more newsprint per year than Sweden. If you can get the Sunday press run from the Los Angeles Times for a newsprint mill in Sweden, it is a big market and that is just one newspaper.

Mr. Ferraro: You specifically mentioned Britain. Is the exchange rate the only reason they are able to compete?

Mr. Wardle: Yes. Consolidated-Bathurst Inc. of Montreal modernized an old mill at Merseyside. It is production from that mill that is coming principally into the west coast US market.

Mr. Armson: There is another factor if we are just dealing with the United Kingdom. Until the last decade and a half, they were actually importing wood from Scandinavia or New Brunswick and some of the northeastern states to provide furnish for their mills, such as the Fort William mill in Scotland, which is now running exclusively on plantation wood from the forestry commission production.

These massive plantations started in 1919 but those that were put in following the Second World War in particular are now providing very large quantities of pulpwood, conifer, thinnings or complete harvest, for those mills. Believe it not, the Merseyside mill was actually exporting pulpwood to Sweden two years ago, which is something of a twist. The prices were right.

Mr. McGuigan: You go through the canal, I suppose.

Mr. Wardle: They would go from a west coast port or an east coast port, depending on where the ship could be efficiently loaded.

Mr. Cordiano: Is there currently a threat these other countries will take more of the US market for pulp and paper away from Canada?

Mr. Wardle: Can you tell me what the exchange rate will be?

Mr. Cordiano: If the American dollar fluctuates within its current high range, how do we fare right now?

11:10 a.m.

Mr. Wardle: Let us deal for a moment with western Europe. We have lost the newsprint market there despite the fact there is a duty-free quota in the European Economic Community. There is additional capacity for newsprint production coming on in some parts of the world such as Asia. There is extensive capacity in place in the southern US which has eroded the Canadian market share down to 59 per cent from about 73 per cent.

Given constant exchange rates and present newspaper advertising lineage, there is a chance Canadian shippers could lose some market share, yes. I have no idea what the number would be or the tons per day. A host of things would affect that. In addition to currency, there is the cost of keeping stock at a newspaper in the US. The prices tend to go up and down with the ability of the newsprint maker to make the price increase stick. That is influenced by things such as strikes in British Columbia or Quebec and the cost of holding stocks in inventory at a newspaper rather than the newsprint mill. It is akin to having a plate of spaghetti



and placing bets on which end will wiggle if I pull one strand.

Mr. Taylor: The message I am getting from all of this is that our concern is not as much a concern with free trade as it is with competitiveness. Let us assume that a person in the pulp industry is being paid anyway. Our problem is the same as that in the US: we just cannot compete in an international marketplace, or at least we are finding it increasingly difficult to compete in the world market.

Mr. Armson: That is right. Our concern--not the industry's but within the ministry--in the projections and what the future may bring, is to ensure that Ontario has a wood supply of desired species. The marketplace for wood is going to be there globally; the supply will go a long way to ensuring that Ontario's industry can maintain a viable economic position.

There has been a real move to hardwoods, short fibre. We are putting emphasis on maintaining long fibre, because in the long run we think that will give an edge. We are putting increasing emphasis on ensuring that the wood supply will be coming in in accessible locations that will maintain an advantage for the mills in the communities and towns that are currently in place. That is the broad way of looking at it.

We cannot say what kind of products will be coming out but we think if they have a raw material supply that can give an economic advantage because of its amount, kind and location, then in the long run we have done about as much as we can do to ensure the viability in that industry. Technology and products are going to be the other part of it.

Mr. Taylor: Again, security of supply is the factor that I see it focused on.

Mr. Armson: That is right.

Mr. Taylor: There is also the element of price. There are a lot of factors in security of supply too, whether it is labour unrest or whatever. But the price is pretty significant when you pointed out what has happened in post-war England with regard to plantation growing, and what they are doing in the Amazon.

Mr. Armson: That is true. Keep in mind that in many areas of the world, including the US south and southeast, where they have been doing a lot in plantations, they are going towards a diminished softwood supply, not an increased one. Their land base is more constrained with respect to ownership patterns and source than it is in a province such as Ontario, where 90 per cent of the productive forest land is owned by the crown. You have a greater flexibility. The large amount there gives you some flexibility in that marketplace. Brazil and the Third World countries also have major problems in some of their plantations.

We are looking at a surer supply of a quality, mature raw material in a location which would, taken altogether, with greatest probability give the industry an economic advantage, whatever the world marketplace is.

Mr. McGuigan: The southern US would have competition between agriculture and forest production.

Mr. Armson: Agriculture, urbanization and also hardwood--low-quality oaks--are a major factor in taking over many of their pine stands. A large proportion of the ownership of those productive pine lands is private. The control of what goes on in those lands is much different than it would be in a publicly-owned forest.

Mr. Ferraro: How serious a threat is technological change to the lumber industry from the standpoint, for example, of trusses now being made of steel as opposed to wood? They used to be predominantly drywall as opposed to plaster.

Mr. Armson: Bill could fill in the details, but we looked at the consumption of wood by the Ontario forest industry as part of the overall land use planning exercise. The major increase in wood consumption from crown forest lands began in the late 1930s and has been a straight line upwards ever since.

When you look at that, you might ask, "At what point is it going to flatten out in the projections for the next decade or so in respect to world demand for wood and wood products?" The products may have changed, but the overall demand for wood to go into products has been increasing. They are looking at a 10 per cent increase in the next 20 years.

Mr. Ferraro: So it is not a problem.

Mr. Armson: It does not appear to be.

Mr. Wardle: There will always be particular niches or specifications, if you will, in which wood will perhaps not be competitive in the short-term, or perhaps for some reason it will regain competitiveness in the circumstance of the truss industry, for example. While it is true there are a lot of steel trusses around, there is technology available to take the short two by eight or two by six 10-foot long and finger-joint pieces together and make a truss for a 22-foot-wide building.

One of the biggest markets the lumber industry cannot get at is the interior partition in high-rise buildings, for example, office buildings. Twenty feet from where Mr. Armson and I work, they are putting up steel studs for a partition in the Whitney Block. It is a bit of a disgrace, but that is neither here nor there. That is building code related.

The fact remains that wood is light, stronger by a factor of four than steel on a per pound basis and easy to handle. Probably 25 to 30 per cent of it is consumed by the weekend warrior who builds a fence or a shed, or something of that nature. He does not have the fixing materials to deal with aluminum and steel, but everybody has a screwdriver and a hammer. If you are going to put drywall on to steel studs, you need a special drywall hammer that you have to rent or buy for use on one or two occasions. I do not view it as a serious threat.

Mr. Armson: One interesting point is, it is very difficult to see new technology, but currently one of the biggest growth industries in the paper area is for supercalendered stock which produces all the material that comes out in the TV guides and the supplements in the newspapers.

Until recently, a large proportion of that was being imported from Sweden because it was the only source of that stock. But we have now St. Marys Paper in Sault Ste. Marie. That is why they got into that business. St. Marys Paper changed hands from Abitibi-Price, but it is producing supercalendered stock for a very modern technology associated with TV and electronics, if you will, and modern advertising.

Mr. Ferraro: Do you mean all that political brochure stuff?

Mr. Chairman: That super-type paper.

Mr. Armson: That is right. It is called supercalendered stock.

Mr. Chairman: That is a growth industry right now? I am a little surprised. Newsprint is not a growth industry, surely.

Mr. Armson: No, but that section of it is. There is a mill at Sault Ste. Marie going full tilt at that and doing very well.

Mr. Chairman: To what extent has recycling affected the growth of the paper industry?

11:20 a.m.

Mr. Armson: I cannot give you any figures on that, but in discussions with Ontario Paper Co., whose mill has the largest recycling capacity, I do not think--this is just an impression--taking the industry as a whole, it had a major impact. It had some, but not a significant impact. That is my understanding.

Mr. Chairman: Not even on newsprint?

Mr. Armson: No, I do not believe so.

Mr. Chairman: My local newspaper claims to be using entirely recycled paper that often gets recycled eight or 10 times.

Mr. Armson: There is a considerable loss in recycling paper because the fibres become so short that eventually they cannot be used. The industry would be in a better position to advise you.

Mr. Morin-Strom: You mentioned St. Marys Paper and its move to introduce supercalendered paper. Its latest announcement about a week ago was its plan to more than double the production capacity of the whole mill in a major expansion project. Once it gets under way--they hope to arrange the finance--I believe it



will be one of the biggest projects in Ontario, again completely directed at supercalendered paper.

What kinds of things are we doing to encourage putting more value-added components into our papers instead of selling paper in the form of newsprint and pulp? Could we be getting into finer papers, such as bond paper, magazine paper, coated paper? Are there restrictions? Are there any tariffs on finer papers?

Mr. Wardle: Customarily, countries have imposed tariffs on the higher-value products to protect domestic industry. Things such as pulp have gone tariff free or free of any sort of quota. There are tariffs in to the US on finer papers, bond paper, writing paper and others. I do not have the figures but we can get them and deliver them to the committee.

With respect to newsprint, the only way you can really upgrade a sheet of newsprint is to run it through a printing press. With respect to pulp, the pulp is used to make fine papers and historically they have been made close to market. Around the world they are made close to market.

The Scandinavians have done some product upgrading in the last seven years. When the European Free Trade Association countries got duty-free admission to the EC market, it gave them a new market of some 275 million to 330 million people and they said they were going to start shipping more paper and less pulp. Being duty free enabled them to do it.

Our duty-free market is 22.5 million people, or whatever the population of Canada is today. The Nordics have a huge western European market into which they can ship duty-free, higher-value product per ton ex mill and no hassles at the border. In a free-trading--whatever that means--environment, it is conceivable that somebody could enlarge a mill the way Domtar is doing at Windsor, Quebec, and ship more product to the US in an upgraded form. The cost is in the order of \$1 billion at Windsor. To enlarge the Cornwall mill significantly would probably cost \$250 million to \$300 million. It is big money. A newsprint machine alone is \$100 million.

Mr. Armson: With respect to the Canadian provinces, we have the highest value-added component per unit of wood, to give you some perspective on this. You are right that we look towards improving it, but much of that comes about not so much from the supply at the raw material end, but from the other side in regard to technology, marketing and new products.

Mr. Mackenzie: Have we not lost some of our fine paper market? I heard a number of years ago we had lost some of it to Scandinavia.

Mr. Armson: That has been largely regained because the Domtar Inc. mill at Cornwall and the Great Lakes Forest Products Ltd. fine paper mill at Dryden are major producers. There was a sense, during the 1978 strike, that they were concerned about losing markets.

Mr. Knight: I find it interesting you mentioned one of the states was replacing some of its softwood with, I think you said low-grade oak, in reforestation there. As was indicated previously, we bring in a lot of oak logs, probably from private lands. In turn, that is one of the lumber industries from which we export to the European and Asian markets. My own family has a hardwood storing firm in Meaford and exports quite a large percentage.

Have there been any programs or policies for us to do the same here? There does not seem to be any oak left in Ontario. We seem to have put our emphasis on softwood reforestation.

Mr. Armson: No. In southern Ontario, where forest ownership is primarily private, the agreement forest program, which now is about 120,000 hectares--250,000 or more acres--and the woodlands improvement program, are two directions in which we have moved.

Agreement forests primarily involved rehabilitation of sandy lands, so that became a conifer program to a large degree, but increasingly, as those lands were reforested, there was hardwood. For example, some of the conservation authorities, such as Long Point, have very productive hardwood lands.

In the woodlands improvement program we have close to 10,000 owners, again with about 200,000 acres. Half of that program is directed towards improving quality hardwood production. That is why it was called woodlands improvement. The other half is plantations of abandoned agricultural land, but those are the only programs we have that directly deal with private ownership.

We will not get into the marketing side, but those two programs are there. They are not major with respect to the overall forest resources program. The private land program would cost currently somewhere around \$8 million a year. That also would include the nursery component, so that gives you an order of magnitude. It is really a very small amount of the total, which is \$180 million.

Mr. Cordiano: Is the market for the lumber industry growing, relatively stable or levelling off? What is happening now with respect to the cycle?

Mr. Wardle: The market for lumber grows at about a point to a point and a half per year and has done so since the early 1900s. At the moment there is strong demand in the United States, which in normal times would mean strong prices. However, there is a glut of lumber available principally because the Japanese and western European markets are soft.

11:30 a.m.

A mill at Nairn Centre which is owned by E. B. Eddy Forest Products Ltd. produces about 120 million feet of softwood lumber per year. One school of thought indicates that about six mills of that size running in a soft market will make it even more soft. About 500 million or 600 million feet, a little more than half of

Ontario's production, can flip a market from soft to hard or hard to soft. At the moment, mills are continuing to run to pay their ongoing costs. Whether they are running at a profit is mill-specific. I will not use the word "dumping" because it has a connotation in United States trade law. They are putting wood on the market for whatever price they can get for it.

The National Forest Products Association in the United States has asked or suggested that about 15 mills should go out of production to withdraw lumber from the market and enable prices to firm up in the order of US\$40 per 1,000 feet delivered at the buyer's yard.

From where we sit, at least, we do not see anybody shutting down mills, particularly mills of the size of the one at Nairn Centre, in such numbers as to firm up prices. The US congressmen from Oregon and Washington have stated they have lost many thousands of jobs. They may well have, but it still has not had any impact on the delivered price people are getting for their wood.

Mr. Cordiano: What about pulp and paper? What does it look like now with respect to the market and the cycle?

Mr. Wardle: There now is a glut in pulp. The Nordic countries have reduced production of newsprint in the order of 15 per cent this year over last year. In Canada, most pulp mills have announced various downtimes of from a week to three weeks in British Columbia, Ontario and Quebec. The American mills have not announced significant downtime, but a lot of them are integrated pulp and paper producers. They take the pulp from one mill and fire it into a fine paper machine of their own in another location.

Paper per se, and this would include newsprint, is forecast to the end of the century to continue to have strong demand due to the fact that newspaper advertising is generally more productive and cheaper than television advertising. For example, a one-page ad in the Sunday Los Angeles Times is \$85,000, but apparently it is terribly productive in getting buyers into vendors' offices, buying photocopiers or whatever. TV advertising will continue to be expensive. Photocopiers and computers have markedly increased the demand for paper such as the paper we have here, and that is forecast to continue.

Mr. Cordiano: There is no threat to paper as a result of the use of new technology, etc., in the immediate future.

Mr. Armson: You may have read about zappers. They are gismos that turn off advertising on television. Apparently that is now regarded as one of the major threats to TV advertising. If people are going to turn it off and not look at it, the merchandiser is not going to be able to sell it. The paper industry and the advertising industries dealing with print media think it is the most wonderful thing that has ever happened. Who could have forecast that five or 10 years ago?

Mr. Wardle: To comment on free, freer or enhanced trade, depending on your definition and your appreciation: In basic



products produced by Ontario industry there is tariff-free trade with the United States and, let us say, western Europe. Those are two areas Ontario might ship to in sizeable volume.

At the moment the concern is not with duty-free trade in commodity items, but what in my own mind I call hassle-free trade. To cite an example, there is one piece of legislation in front of the US Congress, which is quota oriented rather than subsidy oriented, because the US will not import more than X tons of lumber from any country. It has a long spiel behind it. If that bill were enacted and put into place, its intent would reduce Canadian access to the US lumber market by a factor of about four times the lumber production number that we have up there. Canadians are in one bathtub on this issue. It is not a question of cutting out X per cent in Quebec, Ontario or BC. They just say, "There is the bottom line. You sort it, gentlemen."

At the time of the investigation relative to countervailing duties a couple of years ago, Canadian industry spent directly about \$4 million on legal counsel in Washington. Added to that was the cost of having senior executives fly back and forth across the country and the cost of government officials in 10 provinces plus the federal government plus the embassy, etc. This was a considerable expense. We happen to have had a determination in favour of the Canadian industry, but where does it pop up next? Is it subsidy legislation which will make stumpage policies countervail or is it quota legislation? Nobody knows.

Mr. Cordiano: How would you see a free trade deal or some sort of negotiation? How would that be positive on the kind of problem we are facing as far as the US market goes if we are facing nontariff barriers? Or is it just quotas that would be a threat?

Mr. Wardle: Presumably a free trade or enhanced trade negotiation, or whatever, will include nontariff measures. These are things like the 10 per cent Ontario preference, which would include "Buy state" or "Buy America" legislation. Some of this inhibits the use of Canadian-manufactured eight by eight posts as highway guardrails; it inhibits the use of Canadian-manufactured steel reinforcing in bridges which are in part financed by the federal government in the US.

Presumably one would have a standstill on changing legislation to broaden definitions of subsidies. The subsidy definition that is in place was negotiated in the General Agreement on Tariffs and Trade in 1979 following the Tokyo round, and yet one congressman has proposed a piece of legislation which is patently counter to the US's GATT obligation, and it might go through.

There are apparently 300 assured votes in the US for trade restrictive legislation. If something like the Gibbons bill is enacted, which is a subsidy definition bill, then undoubtedly Canada will--the oft repeated word is "retaliate." It is not quite that, but Canada will exercise her rights under GATT to withdraw comparable privilege to US exports. That might mean that we pay more for orange juice or television sets, but it may not do anything to help the lumber industry.

I do not really know what is meant by trade enhancement or free trade.

Mr. Cordiano: We are all trying to figure that one out, but what I am looking at is the matter of negotiating a comprehensive deal with the United States. We are looking at each industry in particular. We are trying to determine, or at least I am looking at it this way, what would happen to each industry in the terms of that deal and what would be the best things to negotiate or include in negotiations. I am sure there are many things we cannot foresee right now.

11:40 a.m.

Mr. Armson: If I may, I think there are a number of factors here. Your notes show there are 770 sawmills and 20 pulp and paper mills. If you affect the sawmilling industry, because most of the larger sawmills are integrated in terms of chip supply to the pulpmill, you automatically have a chain reaction there. In other words, if you were to separate the lumber industry from the pulp and paper industry, it would be an arbitrary thing and certainly would lead you into considerations that would perhaps have some rather major implications down the line.

Talking about the primary industry, let alone the secondary, such as furniture and other areas, the primary industries are inextricably linked, and this is coming back to the beginning. This proposed Gibbons bill is seen as a major threat. If it moves through based on lumber, then it is going to have some dire implications in terms of the pulp and newsprint area.

Mr. Mackenzie: Relating to what has just been raised by you, it seems to me that there is little to be gained in terms of additional sales in any free trade arrangement and that any removal of nontariff barriers is going to be at a cost; there are going to be tradeoffs for it. What we are really looking at, however we do it, is the fear we now have of additional protectionism in the States, and how and if that can be countered. I am not at all sure as yet that I have heard a very good argument for free or enhanced trade.

Mr. Knight: I suggest if we look at the forest industry as an example of one of our industries in Ontario, we really have a window to see what free trade probably would be like within some of our other industries because, for all intents and purposes we do have free trade right now. Perhaps what you are really worried about is making sure you have secure trade in its present form as far as the future is concerned. Indeed, from what I have heard suggested, any particular negotiations that lead to freer trade in other industries may very well have a negative effect on you. Notwithstanding the rationale for United States to be importing some of the logs, that is one of the things they wish to discuss, which will have the ripple effect that was mentioned as far as our secondary wood industry is concerned.

I am wondering if perhaps really where you would like to see us heading, as far as the forest industry is concerned, is securing the relationship you currently have?

Mr. Armson: In terms of lumber in the foreseeable future, we have to be looking at the continental domestic market.

Mr. Knight: Which we currently have.

Mr. Armson: Which we currently have, so that is why this threat is such a key one. In terms of the pulp and paper and the newsprint, it is. Of course, there we are getting into essentially a global marketplace, and the industry seems to have been able to handle themselves. They may have some problems with Europe and elsewhere, such as the Pacific Rim. They have got to meet competition there. We do not hear major concerns expressed by them, and I am talking about pulp and paper, about the marketplace except in terms of the overall condition. I do not think we hear about specific concerns and dealings with this country or that country.

Mr. Taylor: Would you put some historical perspective on this set of figures? It is my impression that over the last number of years the forest industry has suffered severely in regard to price depression. We are talking here with your slide on 1984 figures. Could you give us some perspective on that?

Mr. Armson: In terms of since--

Mr. Taylor: Could you back up and see what has happened? I have heard there has been as much as a 40 per cent depression in prices from the forest industry. As you know, the industry meets with members of the Legislature once a year.

Mr. Armson: Yes, correct.

Mr. Taylor: The impression I have had from those meetings over the years is really not one of optimism.

Mr. Armson: There has been some depression of prices in the lumber market, historically. The lumber industry is not looking towards any major price increases. Any gains are going to be relatively minor. That has been the foreseeable future.

Mr. Taylor: What you do have, though, are other pressures which tend to increase costs.

Mr. Armson: That is right.

Mr. Taylor: Which may result in a worsening of their--

Mr. Armson: That may mean that their margin is going to be correspondingly reduced. There has been a tremendous amount of market pulp available because of the increased capacity going into the United States and other countries. The inventory seems to be moving out now, but the newsprint prices have not gone up. The major companies in Canada were talking of an increase in the order of US\$700 as of this coming September, but they backed off that.

You are right, the marketplace is such that the prices they are getting for their products are not going up and have, in fact,



come down in real dollars.

Mr. Wardle: I have a chart that shows US lumber prices between 1982 and 1985, and there was an increase of approximately \$10 per thousand board feet of lumber between January 1982 and the middle of 1985.

Mr. Taylor: Is that constant dollars or inflated dollars?

Mr. Wardle: Constant.

Mr. McGuigan: To comment on Mr. Taylor's observation, I think it is common in all basic industries. I am thinking of livestock producers. It is cheaper to continue producing than it is to shut down because of the high fixed costs of interest, tax, etc. You may be looking at \$1 million to continue the operation and export, but to close your place down would cost \$2 million. If you suggest to a person who has \$200,000 invested in a hog farm that he shut the place down because he says he is losing money on every hog, he will say he has to keep producing hogs to pay for the barn. It seems silly but that is what is happening.

Mr. Taylor: It costs a lot of money to get into a farm today, and if you have that kind of money, you are crazy to get into it. It is a problem getting your money out of it once you are in it.

Mr. MacGuigan: It is the same thing with a mill, even though you are not making money, you have to maintain your cash flow so you keep going until finally you go bust or until governments quit lending you money or giving you money or whatever. The strange thing is it is cheaper to produce than it is not to produce.

I would like to comment. The conclusion I reach from what you talked about today is that we have nothing to fear from a free trade agreement because we have nothing to lose and we might save ourselves from a lot of the protectionist measures coming from the United States. It is my conclusion you would be in favour of a free trade agreement as far as the lumber trade and pulp and paper stock are concerned.

Mr. Armson: Concerning those products, that is the existing assumption and that seems to give the industry the assurance they want. Obviously that has implications elsewhere, but certainly in the time of the countervail, the lumber industry was very sensitive to the fact that it might be traded off against another area of industry by an arrangement. That is a fear that was expressed at the meeting about three weeks ago which my minister attended in Ottawa with the Honourable Mr. Kelleher and the Honourable Mr. Merrithew.

One of the questions asked by the forestry minister was whether we are going to be dealt with at the Ottawa level as one of the components that may be traded. Mr. Kelleher was adamant in saying no. That is one of the fears that lurks in the industry.

Mr. Chairman: The industry's message to the politicians

generally is "Whatever we do, let us not foul up what we have."

Mr. Armson: They can speak for themselves.

Mr. Chairman: I want to thank you very much for coming and giving us your perspective on this issue. We appreciate your input and the information you have given us.

I might indicate a couple of things to members of the committee. You have had distributed to you a memorandum involving the federal committee. It is for your interest at this stage. You might note, in view of some criticism that has been levied, there are only two names of witnesses who appeared before that committee from whom we will be hearing and we will hope to hear from them in a different context.

Mr. Taylor: Was there some criticism?

Mr. Chairman: I understand there might have been at some time. In fact, I see only one of those names on there and we hope the context will be a provincial one. Their time frames are quite different from ours.

This afternoon we will hear from Professor Stephen Clarkson. Since he is quite avowedly a nationalist and a person whose views may be somewhat different from the views we heard from Professor Wonnacott, he will be alluding to that, I am sure.

We have asked him to talk to us specifically about the United States as an entity and ask him, from his perspective--and he has done a lot of looking at that country--how Americans are reacting to Canada, how they will react to Canada and how we should look at the US as a country. That will be the thrust of what he is saying. He has prepared a special presentation for us.

Later in the week we will be hearing from an avowed nationalist, Mel Watkins, so the more traditional nationalist viewpoint will come out at that time.

I will be a little late this afternoon so Mr. McGuigan will start the proceedings at 2 o'clock. It strikes me, as we are taking two weeks off at the end of this week, we should meet, perhaps in camera, depending on what the committee feels, without witnesses for a period this week, simply to give some direction to our researcher on the structure of the interim report.

It may well be we do not have any conclusions yet but perhaps we can have a meeting simply to get some of our ideas on the table about what sort of structure we would like in our interim report. Then, the researcher can get going on that and some of the substance may be filled in at a later date.

If that makes sense to the committee, there is the question of when. Mr. Watkins will be speaking to us at 2 o'clock on Wednesday afternoon. Would it be appropriate to break at 4 p.m. and continue working for another hour or so at 4:15 p.m.? Fine.

The committee recessed at 11:55 a.m.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS  
ONTARIO TRADE REVIEW  
MONDAY, JULY 29, 1985  
Afternoon sitting



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Traficante, F., Research Officer, Legislative Research Service

Witness:

Clarkson, Dr. S., Professor of Political Science, University of  
Toronto

LEGISLATIVE ASSEMBLY OF ONTARIO  
STANDING COMMITTEE ON ECONOMIC AFFAIRS

Monday, July 29, 1985

The committee resumed at 2 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

The Vice-Chairman: I call the committee to order. We have Professor Stephen Clarkson, University of Toronto. I will turn it over to you, Dr. Clarkson. You have probably participated in these types of reviews before. It is very informal. My only caution is that you speak into the microphone so that it can be recorded by Hansard for posterity.

Dr. Clarkson: May I stand up?

The Vice-Chairman: Whatever is most comfortable for you. Most people sit down, but whatever is best for you.

DR. STEPHEN CLARKSON

Dr. Clarkson: If it can be picked up all right, I would prefer to stand. Thank you very much for the invitation to come. It is a real honour to take part in what is a historic debate that has been going on since well back in the mid-19th century with the Elgin reciprocity treaty and Goldwin Smith, that good English Liberal, talking about annexation to the United States in the 1890s. It is an issue we have been dealing with in this country for more than a century. I imagine our successors are going to be dealing with it for decades to come. I feel we are all part of some kind of real historic process in which a couple of major issues are at the centre of the debate; namely, what kind of trade Canada should have and what is the role of the state, the role of government in this. Those two themes go through the whole debate.

I appear with some apprehension because I do not come with a lot of documents to distribute or a lot of slides to present. I gather you have had a lot of the basic data presented last week and I do not think there would be any point repeating what you have been given. I should point out to you, my political masters, that I work in an institution across the road which suffers from some poverty at your hands. I think I have the right to a thirty-secondth of a secretary and probably half of a floppy disc. It just does not lead to the kind of arrival with research assistance and projectionists that you have been used to.

I would like to offer an exchange of views. My reflections are based on about 20 years of teaching, research and writing, which includes a couple of books, lots of articles and courses I have given at the University of Toronto over the years. A lot of this has had to do with the Canadian-American question. I would like to talk with you on the issue.



The Vice-Chairman: If I might make a comment at this point, it is refreshing.

Dr. Clarkson: I hope. My other apprehension began when I read your terms of reference. I thought they were some kind of curriculum proposals for a large graduate course to extend over at least one year which had been rejected by the Ministry of Colleges and Universities as being too ambitious for a single group of students and any single teacher.

Mr. McFadden was telling me you have a whole year for your deliberations. It is somewhat intimidating to be asked to respond to those dozens of issues that are spelled out in the terms of reference. There are, as I read them, three essential issues: (1) the options facing Canada and Ontario; (2) the pros and cons of the free-trade debate; (3) what should be the goal for Canada in the treaty.

I would like to deal with those three issues, not going into every single subset of all the issues raised in the terms of reference, but in reverse order.

Mr. Ferraro: Do you mind being interrupted?

Dr. Clarkson: Go ahead. I know what I want to say. If something I am saying is only tangential to what you are interested in, you should interrupt right away or wait until the end and concentrate on what it is.

Let me start with the goals. The debate has had a lot of confusion in it. I am talking about the debate during the last two years when free trade came back on to the public agenda in a very major way.

In one sense, the goal is secure access to the American market. I know that was put to you by Mr. MacDonell last week, as I read in the transcript of your session. It strikes me that we have here a massive nonissue. It is a nonissue because Canada happens to have the biggest trading relationship in the world with the United States. Canada-US trade is the largest of all pairs of countries trading in the world. It is very difficult to say we do not have access to the American market.

A second factor is, Mr. Wonnacott may have mentioned that two years from now, in 1987, 96 per cent of all the trade between Canada and the US will be carried on with tariffs of between zero and five per cent, so we have virtually free trade between the two countries.

2:10 p.m.

If we take a third factor, if we can believe Mr. Clark's recent green paper on foreign policy problems, Canadian-American trade has grown at the rate of 15.8 per cent per year since 1970. Since 1980, it fell marginally to 15.3 per cent a year. The trade is growing very rapidly as it is. As far as the goal of secure access is concerned, we have to realize the access Canada has to the American market, and vice versa, is very substantial.

When people are talking about the goal of a free-trade treaty, they are not really talking about an economic issue. They are raising what has presumably been on your minds a lot last week, the question of a political threat--of countervailing action of some kind, countervail itself, escape clause or antidumping--taken by Congress or some other institution such as the International Trade Commission against Canadian products such as lumber, potatoes, maple syrup, hogs or beef. You have been exposed to the actual issues. To start with, I want to underline that we face a political threat. We faced it in the early 1980s and are facing it again, especially with a new lumber threat in British Columbia.

It is important to recognize that we are dealing with a political threat. Those people who say to us, "A free-trade treaty is the solution," are putting to us a line of argument we have to be careful about. The threat itself concerns economic problems in the US in the form of a large trade deficit caused by a very high dollar. This leads to economic difficulties, producing pressure on Congress to pass bills or take action against particular imports coming into the American market, whether Canadian, Japanese, European, Brazilian, or whatever.

We are told the way to deal with the problem is to have a treaty to stop Congress from doing this. So the second issue I want to raise on the question of goals is, how valid is a treaty approach to dealing with a political threat? The straightforward and powerful answer is that if the American government signs a treaty it has priority over legislation. Under the Constitution, the government has to respect treaties if they are signed properly. Therefore, if new threatening legislation comes in conflict with a treaty signed by the American government, the new law would be declared ultra vires by the courts.

There is some assurance and security if you can get a good treaty, but--and the buts are important--a treaty can be stymied by Congress even if it is still on the books. Action by Congress can prevent the treaty from being implemented. Once signed, it has to be implemented and Congress has to pass the implementation legislation.

My point is that you cannot get away from the political factor simply by having a treaty, since the politics of Congress is involved in the implementation of whatever further regulations are needed to make the treaty actually work. The setting out, for instance, of some kind of bilateral body to resolve disputes would have to be done by legislation in which Congress would play a role.

The Vice-Chairman: I suppose SALT 2 is an example.

Dr. Clarkson: Sure.

Mr. Mackenzie: Would the individual states have any influence, as well as Congress, in taking any actions that could affect a treaty?

Dr. Clarkson: Certainly. Indirectly, states, interest groups or other authorities can play a role. The fisheries treaty

we signed in 1979 with the American government did not get implemented because, in the process of trying to get it approved in the Senate, the east coast fisheries organizations mounted a lobbying effort. They succeeded in getting our great, dear Canadian friend Senator Kennedy and a New York senator on their side to oppose this treaty, which they said was damaging American fishermen's interests. So the role of individual states, as well as that of interest groups, lobby groups, commercial groups and citizen groups, is certainly a legitimate issue.

It is a complex process. To say that a treaty is the answer is to write shorthand for a very complex process in which the whole point of the politics of protectionist action, the politics of American economic nationalism if you like, cannot, in my view, be subsumed away. It will be there, even in the treaty-making procedure.

The Vice-Chairman: What if the treaty were signed?

Dr. Clarkson: If you got a terrific treaty and it were signed, then the implementation legislation has to be passed and that is where the interest groups could start to organize against it. There is still the possibility for Congress to abrogate, because every treaty has some kind of mechanism for terminating it. If the American public or the American interest groups were sufficiently angry that Canada had got too good a deal, or if three years later it was working too well for the Canadian auto industry and not well enough for Detroit, the process could be started. There is no safe situation, no perfect solution. That is the first point I make today.

Mr. Ferraro: Professor Wonnacott went on at length talking about the security--albeit, listening to you, it may be false security--Canada could get from such a treaty. Can you give me an example of treaties the US Congress decided to get out of in the last 10 or 15 years?

Dr. Clarkson: No, I am not enough of an expert on American politics to know that. The treaties that they signed and then did not ratify in the Senate, because there is a two-phase process--

Mr. Ferraro: Let me rephrase the question. In that you are somewhat of an expert on Canada and the US, to say the least, and I say it respectfully, can you think of any treaty arrangement or even signed treaty with the US that the US has broken or that Canada has broken?

Dr. Clarkson: We have not actually had that many treaties. Yes, I can think of one treaty. The one that has lasted best is the International Joint Commission set up by the boundary waters treaty. That has survived and there is a supranational institution with equal US and Canadian participation with responsibility for controlling the waters between the two countries.

The treaty that was abrogated was the Elgin treaty I referred to in my opening. The 1854 treaty of reciprocal trade,



which is very relevant to this committee's work, was abrogated in 1866 with the view of pressing Canada to join the US. It was a political move and it backfired. It was a factor that pushed Canada towards federation. There was abrogation in that case.

Mr. Ferraro: Let me rephrase the question. Outside of the treaty, that is as about as significant a degree of security as we are going to get, is it not, apart from being the 51st state?

Dr. Clarkson: To come to my conclusion, I will have to disagree. The present situation is as secure as we will get, and the present situation is not at all bad. When we were threatened by some issue, like the lumber case of 1982, we responded by getting involved in that American political process by lobbying, marshalling our evidence before the tribunals, getting our interest groups sympathetic to the Canadian case--namely, hardware and consumers' associations that wanted low-priced lumber--to lobby on our side of the case in Washington against the threatened countervail.

So the present situation is not that vulnerable in the sense that we are totally exposed to completely one-sided, unpredictable American actions. They may be unpredictable, they may hit us by surprise, but there is always a process in the American system that the Canadian or the Ontario governments can respond to. We can, by exploiting the American political process, try to defend our interests in the present system.

You may not think that is very secure, but in the issues we have had to fight in the early 1980s we won pretty well every one. We won the lumber, we won the steel issue, we won the small ones on fish and potatoes. So while it is not total security, my argument is you cannot get total security by a treaty, because essentially the American political process is going to respond to business demands for greater protectionism if the American economy is suffering too badly.

2:20 p.m.

There is a lot on the agenda now that is being fought out, but we have done very well by simply defending our interests with a very good ambassador in Washington and increasing lobby efforts financed by Canadian corporations that are often themselves the targets for countervail activity. In other words, my response is that the present situation is not a terrible one.

Mr. Ferraro: When one considers an estimate for 1985 of a \$135-billion or \$143-billion deficit in the US, do you not think the position is not going to change; that countervail is not going to be significantly enhanced?

Dr. Clarkson: It may well be. That is likely.

Mr. Ferraro: But you still say the procedure we have now is the best?

Dr. Clarkson: If you are talking about the immediate future, 1985 and 1986, you are not talking about a treaty. There

is no way a treaty can be quickly negotiated and signed to save us from American countervailing in the next two years.

Mr. Ferraro: In the next 10 years, if this continues?

Dr. Clarkson: What is your question again?

Mr. Ferraro: The rules of the game will not change because of the varying factors changing so significantly?

Dr. Clarkson: I think the rules of the game have changed over the last decade or 15 years. Increasingly, Congress has passed more and more powerful means of countervail against foreign products that are hurting particular industries.

Mr. Ferraro: And they have reacted to that?

Dr. Clarkson: They have tightened their net, as it were. They have increased their economic armaments, but it is still worth pointing out that our trade with the US has increased 15 per cent per year despite that. I am just urging you to keep in perspective what the reality is. We have very good trade relations despite the threat. I am one of those who has raised the spectre of the threat that this can be interrupted on specific issues. However, it is always specific issues, we have to remember. It is raspberries but not tobacco. It is targeted issue by issue. The American political system itself cannot cope with all these countervail actions simultaneously.

Mr. Ferraro: I am not sure Canadians can either.

Dr. Clarkson: We have to respond to all the pressure we get from them.

Mr. Mackenzie: The auto trade with the US has been the bulk of the trade. The figures we have been given show it is immense. If we open ourselves up to a free-trade arrangement with the US, is there a danger it could undermine the secular arrangements we have made with the auto pact?

Dr. Clarkson: It is a very real issue.

Mr. Mackenzie: Could that in one swoop destroy our trade balance situation?

Dr. Clarkson: To refer to the best authority on the economic mood of Congress, an economist called Gary Hufbauer, whom you may see in Washington, he did a report for the Macdonald commission on the thinking in Congress about the trade problems with Canada. One of his findings is that Congressmen and Congresswomen are very concerned they do not have something like the safeguards in the auto pact. Free trade has to be free trade with no conditions that give Canada special protection the way the safeguards of the 1965 auto pact did. It is possible that by opening up the can of worms the safeguards would go.

Mr. Mackenzie: It could be the biggest single disaster yet.

Dr. Clarkson: That is possible. I am sure Canada would approach the negotiations trying to keep the auto pact out of negotiations. Whether that is possible--the auto trade is such a large component of the total trade--we just do not know.

Mr. Cordiano: It seems to me most of the security is based on the fact that we do most of our trade with the US. Entering a free-trade agreement, naturally, would lead to more trade with the US.

Is it our goal to increase our trade with the US only because we fall into a pit? The more trade we do with the United States, we are becoming more and more vulnerable.

Dr. Clarkson: That is right and I am sure Professor Wonnacott would have said you increase your integration and dependence but reduce your vulnerability with a treaty. I know he has written that.

Mr. Cordiano: He has argued that, yes.

Dr. Clarkson: I would like to caution, though, that we would still remain vulnerable to abrogation.

Mr. Ferraro: Obviously the chance is slim because there is a treaty.

Dr. Clarkson: It depends on how strongly the Americans felt and how many interest groups were against it. Again, if I can leap ahead with a point I was going to make later, the question of abrogation has to be considered seriously by legislators who would be making a very important change in Canadian law by signing that kind of treaty.

In the past, in situations in other countries, a free-trade treaty has been the step towards annexation. I point to the Zollverein, which Prussia got its neighbouring German-speaking nations to enter into in the early 19th century. By 1870 it was able to force them into union because the weaker, smaller states had become so dependent on trade with Prussia that it could dictate a political union.

You could say the United States would not do this, but it did it to Hawaii. It signed a treaty on sugar with Hawaii in the late 19th century and virtually forced it into union because there was no alternative market. Hawaii did not use the free-trade treaty to diversify, it became more specialized in the American market and then had to join because it had no option.

Mr. Cordiano: You are suggesting that we may become economically weaker rather than stronger in the sense that our vulnerability will have increased.

Dr. Clarkson: It could be the other way around. You could say that economically we would become stronger, richer and better but politically weaker. Your point about vulnerability is that there is no option to going 100 per cent with the US.



Mr. Cordiano: I am not so sure. In the short term, perhaps we would gain economically but what would happen over the longer term is that our exchange rate would level off at some point and we would therefore lose some of that advantage we now hold. There are a number of other economic factors that would enter into the relationship.

Dr. Clarkson: Could I go on to the second part--

The Vice-Chairman: I was going to interrupt myself. I wonder if we can go through with the rest of your thesis.

Dr. Clarkson: This point would bring me to the second part about the pros and cons of free trade which, again, have a strong economic and political dimension. I can imagine the economic look you had with Professor Wonnacott last week because I know his work. You, though, who listened to Professor Wonnacott and, of course, to me and others who come to testify, have to realize that on the whole the economic profession in Canada unreservedly favours free trade. The whole theory of modern liberal economics is that everyone benefits with freer trade. We benefit from greater productivity, greater employment and a higher standard of living. The theory is impeccable. The reality, though, is what should concern politicians.

The realities of productivity for Canada in a sector like agricultural equipment, which has been free since 1944, have been that our productivity level is 15 per cent and 20 per cent lower than the US. For employment gains: 20 years ago we manufactured half of the mining equipment that we consume in this country. Now we are down to a quarter, as a product of trade liberalization. Employment surely increased but the question is, where did the employment increase?

Mr. Taylor: Are you speaking in a world context as well?

Dr. Clarkson: I am just giving examples to caution you about accepting the theory of free trade that you get from my economist colleagues. Look at the reality of where the standard of living has gone up as a result of free trade. Has the United Kingdom prospered since joining the common market? We all know the UK is in a dreadful state.

2:30 p.m.

We do not know--and I gather Mr. Wonnacott did not address this--what the impact of free trade will be on foreign investment. I say this, not in the sense of new foreign investment, which is hard to predict, but of existing foreign-owned corporations in our economy, particularly those that do not export but simply package, assemble or serve the local market. Here we do not know, nobody can tell you. I gather Mr. MacDonell dealt with it last week but was not able to give you a firm answer. There is very real doubt. Some of the economists have admitted jobs will probably go down in the short term. There are still doubts as to whether jobs would go up in the long term, at least in Canada, as a result of free trade.

Two basic things have to be said about the economists'

free-trade theory. One is that it is based on the assumption of full employment of the economy's capacity. In that case, everybody gains by free trade. As you as politicians know better than I, the problem is we are dealing with non-full-employment, and we are dealing not only with large unemployment but also with underutilized capacity of plants. In those conditions, protectionism makes sense for each country, so there is a problem in theory with the economists' position.

One can say that in history, free trade has always been to the advantage of and has always been preached by the stronger power. For Britain in the 19th century, free trade was terrific. It meant it could invade the Indian market and replace handwoven Gandhi-style textiles with manufactured cottons from England. For Ontario in the free market of British North America, free trade was terrific. It meant prosperity.

However, there are also losers in free trade. Without any question, India was a loser in the British Empire. The Maritimes have been losers in the Canadian federation. They lost while we in central Canada gained.

Mr. Taylor: There are losers even without free trade.

Dr. Clarkson: They were doing very well in the 19th century building ships and fishing.

Mr. Taylor: I am talking about the last part of the 20th century. With a world marketplace, we are getting quite a different situation.

Dr. Clarkson: What I am raising is, who benefits and who loses? The theory is that everyone benefits. One has to be very sceptical about whether the weak members of a free-trade association will be benefited more than they will be hurt as a result of a new free-trade arrangement.

Mr. Taylor: We are building a new service industry based on nontariff barriers.

Dr. Clarkson: There is also a new industry of talking about free trade.

My first point on pros and cons is that the economists' argument argues the pros, but I think you need to be sceptical about what the realities are that we will be dealing with, and not so much with the theory.

On the political side, I do not think there is any doubt about the cons because even my economist colleagues admit there will be increased political integration as a result of free trade. We do not know how much, but there is virtually no one except the latter-day Goldwin Smiths who would prefer to be annexed to the US and who would prefer the American educational system, American urban blight and American medical services to ours. There are Canadians who really want political integration and there is a substantial consensus our capacity to govern ourselves will be affected by economic integration with the US

created by free trade.

Mr. Cureatz: As to political integration, can you be more specific in an example?

Dr. Clarkson: Yes; I want to go on. The consensus is that if you have a free-trade area, more and more policy areas will be made in common. We have already lost control of our monetary policy in this country. Our monetary policy is, in effect, made by the Federal Reserve Board; a day or two later the Bank of Canada changes our interest rates to go along with the Americans, only it is a bit higher.

The whole notion of the common market is that certain policies be made collectively for the whole common market.

Mr. Cureatz: You are not specifically saying the provinces or the federal government would move towards a congressional system, but it would be more in the policy areas, that if all the states or a majority of the states were going a particular way, the provinces would feel obligated to be in uniformity with that decision.

Dr. Clarkson: I would go that way specifically. Specifically, we would have very great difficulty maintaining our marketing boards, crown corporations and regional development policies or programs that try to give the Maritimes some support for their loss of income. This not just because of the economists' logic. A businessman in Cambridge, Ontario, who is competing with a businessman across the border in Buffalo or in Dallas is going to say, "We cannot afford to pay"--whatever it is--"the unemployment insurance premiums when the guys in Dallas do not."

There would be internal pressure on the provincial government to harmonize all social programs with theirs on the basis of fair competition, from our point of view. From their point of view, we would be under pressure from the American government because of business complaints there that we were unfairly subsidizing our labour by having a better school system or by having cheaper medicare or--

Mr. Mackenzie: Workers' compensation.

Dr. Clarkson: Workers' compensation. There would be both internal pressure on us to harmonize, because we have a more expensive social welfare system, and external pressure on us.

Mr. Taylor: That happens now.

Dr. Clarkson: That is true, but we still have a better education system, safer streets, better hospitals and a cheaper hospital system.

Mr. Taylor: I am back to where I came in; that is, in a very competitive international marketplace, these are the forces at work now.

Dr. Clarkson: That is true.



Mr. Taylor: We are feeling the pressure, whether it is minimum wage or you name it. We are fighting a rearguard action and eventually it is going to catch up with us. In a larger global context, as opposed to freer trade between the US and Canada, by 1987 about 80 per cent of the trade will be nontariff between us and the US.

Mr. Mackenzie: You may be ready to let them catch up with us but some of us are not. Those are options we still have as a nation, if we have the control.

Mr. Taylor: I will debate with you at a later date.

Dr. Clarkson: I do not want to put the issue as the theoretical question of sovereignty, but we could debate that. We may be losing sovereignty but then you can say, "If we freely give up sovereignty for the treaty, we are not losing sovereignty." I do not think that is the way the issue should be addressed by a group of politicians.

The issue is how much capacity to make policy, how much capacity to govern, will be lost by free trade? That is not to say some wall can magically protect us against a newly industrialized country or against the Pony car or videotape recordings coming in from Japan. It is to say that when you are under siege, do you open the gates or do you try to control the process of assault from outside?

You are dealing with not only economic issues, but also environmental ones. Are you able to tell Inco to reduce its pollution by offering it a subsidy? You can now, but could you after free trade? It is unlikely, because the Americans would say: "That is an unfair subsidy. You should do it our way."

Mr. Taylor: The assumption we seem to have been making throughout our hearings so far is that the Americans are anxious for free trade and we are the reluctant dragons. That may or may not be the case.

Dr. Clarkson: If I could address that, it is a valid remark. The debate in the press has been: "They want it. We do not." The reality is, even in the administration, we talked about the window of opportunity. If Mr. Mulroney does not get his treaty in 16 months, the window of opportunity will be shut.

We have a president who, whether he has cancer or not, is a lame duck in his last few years as president. His clout in Congress is reduced, even though it was very powerful. Canada is not very high on his agenda. At the Shamrock summit when everything was smiles and hope, Bill Brock, the trade representative, said they would push for free trade. Brock was almost immediately shifted from his position and replaced by Dr. Yeutter, who is not at all an apostle of free trade. He told the American congressional hearings, "We will solve the lumber case before we talk to Canadians about free trade." He is saying, "We are going to defend our interests first."

2:40 p.m.

I am talking about the administration, which is supposed to be in favour in free trade because the Reagan administration is very big on free-trade rhetoric. According to another very well respected American trade economist, Fred Bergsten, in practice the Reagan administration has been the most protectionist in recent memory, regardless of its theory.

I think you are right to be sceptical about how much the Americans actually want a free trade treaty with us. I think they want it as a bargaining lever. They want talks about free trade because their real objective is the multilateral trade negotiation round and a Reagan round after the Tokyo round, in which they can get the world to accept free trade in services. If they can show Japan and the European common market they are starting serious talks with Canada, that gives them a lever to say: "If you do not play ball with us, we will play with the Canadians. We did it with Israel."

We have a certain value as a bargaining chip, but I do not think the Americans are very interested in a separate free trade treaty with us. I think that is a valid point.

Mr. McFadden: I wonder if I could ask a question concerning the definition of what we are discussing. Professor Clarkson, the tenor of your remarks indicates you are speaking about a thorough, comprehensive free trade treaty that would cover all goods. The other alternative, using the auto pact as an example, would be to zero in on certain industries in which there might be a common interest and in which it might be to some extent to our mutual advantage to move ahead.

On balance, certainly the agreement regarding the auto industry seems to have been favourable to Canada. There are weaknesses in the sense that the auto parts industry has not been developed in the way I think would have been best with respect to Canada's overall economic growth, particularly with regard to research and development opportunities. Putting that issue to one side for a minute, with respect to dollar flow and everything, the auto pact has been favourable to Canada.

Would you take a somewhat different position if we were talking about specific areas rather than a comprehensive free trade treaty, or do you feel the fact we are now in the position of having 90 per cent of Ontario's export market in the United States is per se bad and, therefore, even limited further free trade arrangements in any given area or the removal of barriers, nontariff or tariff, would be bad? I am just curious to know the direction from which you are coming.

Dr. Clarkson: I appreciate the question, Mr. McFadden, because I realize I have been talking very negatively. I am not against the principle of free trade. I can see agreements or arrangements made with the United States that would be beneficial both to them and to us. Steel would be an obvious case in which they would benefit us.

The reason I am sceptical overall is the political realities of the present. To refer again to Gary Hufbauer, whom you might

see if you go to Washington, he did this very careful canvassing of congressional opinion and just reported there is a very tough atmosphere in Congress. They are not going to give anything without getting something. Certainly it will not give anything to Canadians because we have a trade deficit, the way they see it, although it is not an overall one.

If there is no free lunch, what will we have to give for what we get? We would have to be very careful about the fine print. What are the actual details of the deal? Just putting that as a partial answer, it leads me to say it is very hard to think of a deal that would give us something which would not be extremely costly to us because, in effect, we have given away all the significant bargaining chips that were on the agenda a year ago. We have given away the national energy program, the Foreign Investment Review Agency, and we have told them we are not going to push them on acid rain. On the big issues that were on the agenda a year or so ago, we have already kind of given those cards away.

What does that leave? If we want secure access to the steel market with no nontariff barriers, which would create ideal bliss for Hamilton, how are we going to get it without giving them James Bay or without saying, "We will have no more crown corporations, marketing boards or unfair competition with the United States, as defined in Washington?" That is my concern. Given that bargaining negotiations start with the present and that we have given away a great deal they wanted us to move on, I cannot see us getting much without having to make quite substantial concessions, because Congress is in a very difficult mood. Those concessions might include our capacity to make policies you might want as elected members of the Legislature.

Mr. Taylor: Would those again be as a result of internal pressure? Take, for example, the pricing system for agriculture. We have marketing boards and they do not. It is the pricing mechanism that is going to put pressure on us to free up the system.

Dr. Clarkson: Sure, but we would be freeing up on their terms. They subsidize their farmers and generally that is not on the negotiating table. It is the way we subsidize our farmers that is the grievance. We would have to agree to play the game the way they play it.

Mr. Taylor: All I am saying is that if you have an integrated economy you cannot have one part of it without boards and the other part with boards and compete in the marketplace.

Dr. Clarkson: Probably, but Mr. McFadden was raising the question of sectoral free trade--a different way of handling it.

Interjection: That is right.

Dr. Clarkson: The reason sectoral deals are unlikely is that there are very few in which the benefits and the costs are evenly distributed. Agricultural implements seems to be one of the few where there is still more liberalization that could take



place. Canadians and the Americans would benefit and suffer equally. In almost every other sector--for example, steel--we would benefit more than the Americans.

They would benefit more than we would in computer software. The difficulty of making tradeoffs across sectors is that those groups that suffer are not going to suffer willingly just because another industry is gaining. You would expect to have a lot of congressional opposition. That is why people think we will either get a general treaty or no treaty. The advantage of a general treaty is that the General Agreement on Tariffs and Trade would accept it. You can get an acceptance for an almost free trade treaty from GATT the way you would not for another auto pact.

Mr. Taylor: You are not going to trade off the Canadian furniture industry for the steel industry?

Dr. Clarkson: We would be asked to.

Mr. Taylor: What I am saying is that it is best to fear what is going to be traded off. I can see a political problem there, but not an economic problem.

Mr. Cordiano: We were discussing the whole question of jobs with Professor Wonnacott. Most of the discussion centred on jobs. I want to ask you how a comprehensive free trade agreement would affect high technology industries in Canada vis-à-vis competing with American companies, which would have natural advantages to begin with, presuming all else is equal and we were to negotiate that kind of deal.

In areas where they have a technological advantage, I would think they would gain where the future jobs will be. In other areas where the number of jobs will be decreasing, we will gain. There was not a definite feeling as to how many jobs would be lost and how many would be gained in certain industries.

Dr. Clarkson: I would be surprised Professor Wonnacott would say we would lose in those areas in the high-technology field where we are good and gain where we are weak. Theory and logic work the other way. We would lose in the labour-intensive industries such as clothing and shoes. The workers on Spadina Avenue would lose to the technologically advanced or more efficient companies to the south. Where we have strong high-technology companies such as Spar Aerospace Ltd. or Northern Telecom Canada Ltd., they will do fine.

It is the weak company trying to get going, such as Mitel, which is receiving the benefit of some government protection or grants, that will not do as well. If Mitel were still Canadian, it might do better in a free market if it got around certain buy-America legislation to get contracts with the Pentagon, for example. Again, it would come down to the fine print in the treaty. The Americans would have to agree to give those Canadian companies access to security classification as some of them have with the defence production-sharing arrangement.

I cannot really answer a very specific question like that without knowing the details about the specific company or branch of the high-technology industry you are talking about.

2:50 p.m.

Could I proceed? Let me get back on track. I started out talking about the goals. I do not think the economic goal of greater access is a very serious one since we have that access. The issue is the political one of protectionism.

Looking at the pros and cons, we have to be sceptical about the pros or the pure economist's argument. The con is a very real one because the political implications for politicians are very real, namely, a declining capacity to run our own affairs, whether federal or provincial.

I do not want to take much more time, but my third point is the question of options.

Mr. Ferraro: You are getting off on the political aspect and I have a question pertaining to that. Can you enlighten me as to a hypothetical scenario. Let us assume the Gallup poll comes out and says, "Let us go for it, Canada." The federal government comes up with the conclusion, "Let us go for free trade and a treaty." Ontario says, "No." Can it work without Ontario's co-operation or can it work without the co-operation of any of the other provinces?

Dr. Clarkson: Yes and no. The federal government could negotiate its own treaty with the United States, but politically it would be very hard for it to do that. The precedent was the last big multilateral trade negotiation called the Tokyo round in which Ottawa, for the first time, seriously involved the provinces as part of its negotiating team.

There was a kind of two-stage process going on. We had Rodney Grey and Jack H. Warren negotiating in Geneva. They would come back and Warren would talk to the provincial people about the specific things. For instance, the petrochemical tariff was a big concern of Alberta.

Alberta would say: "That is not good enough. You have to try to get more." Ultimately, we did not get more, but there was real involvement. It was not just token or patting the provinces on the back. There was some real involvement of the provincial representatives in the process.

It would be virtually impossible to ignore the country's most powerful province, especially for a government that has been elected on a mandate of excellent federal-provincial relations. While in theory the answer is yes, in practice I think there is no way that a province, particularly a major province, that was opposed to the whole notion of a treaty would allow it to proceed. The reality is that if Ontario is against free trade, it will not happen.

Mr. Ferraro: It is nice to know we are masters of our own destiny.

Dr. Clarkson: In that sense, that is right.

Mr. Taylor: That justifies the committee's expenditures. Mr. Chairman, you can go back to whomever you go back to for more money.

The Vice-Chairman: Politically, Ontario is pretty well a linchpin in determining what government is elected in Ottawa, but less so now that there are a good number from Quebec.

Dr. Clarkson: I am not sure we determine how they get elected, but we certainly have a big voice in policies. There is no way the economic clout of Ontario can be ignored by the federal government, particularly since all the negotiations about specific industries will come back to interest groups in Ontario lobbying in Ottawa for conditions that would help them and worrying about conditions that would hurt them.

I want to end up on the terms of reference about options. I think you should consider there is an option to free trade. It may sound very unexciting for me to come in here and say this. Over the past 20 years, Canada has been developing on quite an encouraging path as a partisan in the world, however threatening that world may be. Since 1975 we have been a member of the economic summit.

We have been a very active player in international organizations such as the United Nations, the Organization for Economic Co-operation and Development, the General Agreement on Tariffs and Trade, the Food and Agriculture Organization. We have an international presence.

I do not say this just as back-thumping or morale-boosting to this committee. I say it because it specifically has an impact on how we deal with the United States. We did better pushing our case against the United States on our control in the Arctic, even though that is being threatened right now by this new icebreaker trip; by participating in the United Nations Conference on the Law of the Sea, which took over 10 years to negotiate; and by co-operating with other partners, in some cases with the United States and in other cases against them.

The final deal did recognize Canadian sovereignty in the Arctic for pollution purposes and for mineral rights. It is just one example where we had differences with the United States and successfully defended our interests in a multilateral forum.

It happened again very recently in a conflict with the United States. It was not bellicose but still we had to define the boundary between Maine and New Brunswick at sea because both countries had extended their claims to sovereignty from three to 12 miles and ultimately to 200 miles in the 1970s.

That led to overlapping claims on the east coast and it was at the International Court of Justice that the decision was made.



Both Canada and the States in advance said they would abide by that decision and we did better there than if we had been shoving and pushing bilaterally between Washington and Ottawa. We got about a third of the George's Bank with a lot of the good scallops area.

There are a number of other examples I could give of Canada's ability to work internationally and multilaterally, not just for its own purposes, but where we have a very significant aid role in the Third World. We are a significant player in the big conferences such as the summit.

Where we have had trouble with the Americans, to give another example, is on extraterritoriality, which we continually deal with. Mr. McFadden as a lawyer would know better than I, but in principle the problem of the Americans applying their law to branch plants in Canada confronts our sovereignty and our control over them. In cases like the Soviet natural gas pipeline of the early 1980s, it was France, Italy and Britain, with Canada as a minor player, that together pushed the Americans back from trying to tell subsidiaries in Europe what to do.

In the Bank of Nova Scotia case in Florida where, again, an American court is trying to take the Bank of Nova Scotia to task for something going on in the Cayman Islands, it was Canada working with Britain and the Cayman Islands against the American position that led to a satisfactory resolution of our problem.

Even if we are not a superpower, we are still a substantial power. My point is clear, that we can use our international weight, not just for our dealings with Europe or with the Third World, but also in our dealings with the United States. Multilaterally the status quo, which sounds sort of reactionary and not forward looking, is a real alternative for this committee to consider.

The status quo has meant we can recruit international support for our position when dealing with the Americans on trade, investment, cultural and ecological issues. It also means we can continue to do what we have been doing bilaterally in trade countervail conflicts that are now the main concern on the agenda.

If we look back three or four years to when Allan Gotlieb went to Washington as our ambassador, we have had significant success, as I mentioned earlier in response to a question, in dealing with threats to our exports that came out of these contingency measures, countervail, escape clauses or antidumping, by responding in the American political system using our weight.

Canadian weight is considerable in the United States. Not every American president knows this of course, but as I pointed out at the beginning, we are their biggest trade partner. Ultimately, they learn it. Mr. Reagan said, as Mr. Nixon said before him, that Japan was United States' biggest trade partner. They get educated after they have been in power for a few months and realize that they depend on Canada to some extent, but not as much as we depend on them. There are still interdependencies.

3 p.m.

I can give you the best example of this, which I found very convincing. In 1981, when the Americans were mad at the Canadian government over the national energy program and the Foreign Investment Review Agency and were considering retaliation against us, it might have been the auto pact.

I was in Washington doing research and talked to one of the people in the US trade representatives office, which is part of the White House administration. His desk, which is about the size of my combined desk here, was littered with manila file folders. He pointed to them and said: "These are the various dossiers we are looking at for retaliation against you. The trouble is we have not been able to find any in which we can hurt you without getting hurt ourselves." The interdependence was such that they could not close the border on the auto pact because Michigan parts suppliers would be affected. They could not work on any of these dossiers without someone back home suffering.

I have come full circle to my original position about what the goal is. If the goal is secure access, the access we now have is considerable. One option is going after a big treaty. It raises all sorts of questions and the possibility of suffering, as you point out on the auto pact. There is an alternative, to continue in roughly the direction we have been going as a country and as a province in the past 15 or 20 years.

You and know that Ontario actively participates in the American political system on environmental issues. It supports New York state, for instance, in actions against the Environmental Protection Agency and the Ohio River Valley states to reduce emissions. The Ontario government has its own lobbyists. That is an effective option that has proved to be quite considerable in the past few years since we became more assertive in defending our interests when they are challenged in Washington and other state jurisdictions.

If I could bring my formal comments to a close without too much insult to my profession, the free-trade debate is academic in the sense that it is a wonderful subject for study. We produce reams of material. This committee is producing several feet of it which my students can analyse over the next year. With respect, what you as politicians have to consider are the real issues of the Ontario economy--where it is weak, where it is not productive or competitive enough, where it is not growing enough trees to sell 50 years from now. These are the issues that will determine whether or not our trade with the US expands--not, like St. George, charging down the track hoping to nail some treaty to the windmill.

The Vice-Chairman: I have a rhetorical question. What did free trade do for the state of Maine? That was free trade within the US. It is not a very rich state.

Dr. Clarkson: I would have to know the state of Maine's economy 20 years ago.

The Vice-Chairman: I am assuming it was very poor.

Dr. Clarkson: It was probably poor then. It may have been, like the Maritimes, quite prosperous and lost out. The point you raise implicitly is that the weak may suffer in free trade because they cannot defend themselves by their own means.

Mr. Mackenzie: I have a comment that I think I made when we had our organizational meeting. Providing he is still the ambassador in Washington when our committee gets there, I hope breakfast with the good gentleman, if we can get it, is on the agenda. I was more interested and got a better 45-minute summary from him of some of the problems we are facing in trade at that session than at any meeting I have yet sat through, although that was not what we were there for. It was a short meeting and so well put. It would be useful to sit down, if that can be arranged.

The Vice-Chairman: That is Gotlieb.

Mr. Mackenzie: Gotlieb, yes.

Dr. Clarkson: He is both brilliant and effective, an unusual combination.

Mr. Mackenzie: It was easy to understand, very clear, very well done, and it kept the attention of the entire committee during the time we were talking to him. It impressed me.

What bothers me is that we are pushed to accept the new economic reality, international competitiveness or whatever the argument is. If we do accept it, we will have to sacrifice whatever principles have guided the economic development of this country. Some of those principles, as weak as they may be, have been applied in wages and benefits for workers, some of the social programs in place and some of the requirements in safety, health, and cleanup. I am wondering what we get out of it if we sacrifice those economic principles that have guided our development. I am not sure we need it to survive, but what we become is a bit player, just another economic factor in what is becoming a global rat race economically. Is that overstating it? Is that what we are becoming, a bit player?

Dr. Clarkson: It is a difficult question. Canada is certainly under severe pressure from its international competitors. It may mean our standard of living will not grow rapidly, or may decline. If we look at Japan as a successful model, it may mean we have to work harder. It may mean we have to learn more at school. I am amazed at how little mathematics my kids have learned in what is still an excellent public school system. I cannot believe that our competitors, who have no better comparative advantage in resources than we--simply their human resources--have not done it through getting their men and women to work more productively.

Mr. Mackenzie: They use the form of content legislation, or they have used a form of income replacement. You cannot always get into the markets. These are valuable tools for us, too. When you are in trouble at home and you are laid off, what you do is



try to make do with what you have, or find other ways of making do. These are some of the options we are going to have to look at.

Dr. Clarkson: It is a little easier to respond on that level. One resource Canada, particularly Ontario, has is its own market. It may have to bargain access to its market for certain investment, which we tend to do in the automobile industry. If you want to sell here, you have to build here. Historically we have given access away, sometimes even giving loans to competing foreign companies which have hurt local Canadian-owned companies. In effect, the words we do not want to use are "industrial strategy." Canada has been loath to have an industrial strategy. As a result, the provinces have each developed versions of their own industrial strategies, but they sometimes conflict with each other.

Mr. Mackenzie: Not too many years ago you were a communist when you talked about industrial strategy.

Dr. Clarkson: Now you are Japanese.

Mr. McFadden: Earlier in your remarks, you talked about political integration and your concern that potential evolution, some form of free-trade arrangement, might lead eventually to a political integration of some type. What we may be launching into is a fundamental debate in this country about the heart and soul of Canada and the direction we want to see it go, economically and politically.

The debate is probably broader than merely economics. That is one thing that is starting to hit the public consciousness now. I expect this debate will probably occupy our political attention for 10 or 20 years. It has had a lot of our attention during the last 100 years. I do not see it going away. It will speed up. For the reasons you have set out, do we go with closer ties with the US, do we look at multinational agreements, or do we retreat behind our own barriers in some way?

Dr. Clarkson: One of the things that disturbed me were the results of a national survey. It was carried out as part of a Focus Canada report by Environics Research Group. They interviewed 2,000 Canadians nationwide. One of the figures that alarmed me was that 20 per cent of Canadians sampled favoured political union with the US. That is a remarkable figure.

3:10 p.m.

The other remarkable aspect of that figure was that Quebec was the part of Canada most inclined that way. There, about 24 per cent favoured political union of some type with the US, whereas in the west it was only about 16 or 17 per cent, contrary to the conventional wisdom.

Do you, as a political scientist, in your analysis of this debate, view it in that respect or not? I take it you do, but I just want to probe a little bit. I have heard the counter argument, and I found it interesting that you said free trade often leads to political integration. I have heard other scholars

and writers state that is not true. All around the world today there are examples of free-trade areas of one type or another, customs unions and so on, that have not wound up with political integration.

I know you have set the other argument out, which I have also read. I am just curious. For example, with respect to Europe and what has happened with the Economic Community, they do not seem to be heading towards political union at this stage. Maybe they will somewhere down the line. I know the fathers of the European Community might have had that in mind. Clearly that does not seem to be the way they are going at this time.

Is the reason you think political integration with the US is perhaps inevitable and likely because there are only two of us involved in the relationship, whereas if there were a number of countries it would be less likely? I want to probe into why you think that would result.

Dr. Clarkson: It is a really interesting issue and we could go on for a long time on it. I think your last point is a significant one. We have a very large country and a relatively small one strung out along its border. We are not talking as with the European Community, with roughly equal-sized partners. Some of the Benelux countries are smaller, but France, Italy, Germany and Britain are within 10 million or so of 50 million. As they integrate, and they have made significant progress towards common decision-making, it seems to be less of an affront, or there is less damage to the large countries that have significant weight in those decisions.

For us, integration has to be not symmetrical but asymmetrical. We integrate on the basis of their rules. We cannot expect that our trucking regulations will be the norm for the American trucking industry. With the disparity in weight, what integration takes place is pretty clearly going to be on American terms, except maybe in hockey. There are a couple of fields you could think of where the Canadians might define the standards. Videotex might have been if Teledon had survived. In fact, it was for a while.

In the Canadian case, your last point is very important, but since there are only two of us tangoing, we have to tango by their steps, not by ours.

In more general terms, I am uncomfortable with the notion of integration, which is why I talked about decision-making capacity. Integration is taking place very palpably in certain areas. Curriculum is an example. We know the debates about textbooks, readings materials and how much our classrooms are full of American materials. That is taking place, and you may want to see it as a major force in Canadian society. On the other hand, there are forces leading to a disintegration. The development of Canadian cultural activities, the novel, poetry, some aspects of theatre, some aspects of Canadian cultural life have become more independent. One part of the trade union movement has become more independent in the last year. We know something about that in Ontario.

In a way there are two separate trends going on, one of integration and one of reduced integration. It is extremely difficult to be categorical and say, "If we have a treaty, Canada will not exist 50 years from now." I think Canada will always exist.

The main issue of the many is how much power will you in government have 20 years from now to do what you have been elected to do. Demands have increased. The public wants government to resolve problems because problems are more complex. As a citizen, I cannot solve my acid rain problem. I have urged you to, and you, of course, cannot. You urge Ottawa to, Ottawa cannot, and it has to get into some kind of fight with the US about it. However, demands are increasing on government because social problems are becoming more complex at the same time, as in a way you are indicating, as continental and worldwide integration are reducing the capacity of governments to deal with those problems.

I do not want to say that if we have a free-trade treaty Canada will not exist 50 years from now, although that is a possibility. The cultural assimilation is already so powerful that we have changed our Constitution. I think it was you who mentioned a while ago we might go along a congressional path with our institutions. With the Charter of Rights, we have gone towards the American model of the Bill of Rights. In our practice, we are giving parliamentarians more power than they used to have.

I am sure my children and yours know where Dallas is, and knew where Dallas was before they knew where Charlottetown was. We have become very Americanized and our capacity to resist pressure to be annexed might be similar to Hawaii's at the turn of the century, if it came to that.

I do not think political integration should be an enormous scare we use to frighten people. There is a real issue as to how much decision-making capacity our governments have to resolve problems here. If we have to rely on the US to solve a problem for us, we have clear evidence from the past five years that an administration in Washington that does not consider dead fish in the Muskokas to be a priority is not going to deal with our problems. The more we let ourselves get into a position where we lose power, the less we are able to resolve our situation. That is the real issue about political integration: decision-making power.

Did that answer your question? I am not sure it did.

Mr. McFadden: Yes. It is a difficult one and I wanted to get your analysis.

The final item relates to what may be the opening of a new round of General Agreement on Tariffs and Trade negotiations. Am I correct in assuming that you have suggested Canada would be better to urge along a new round of GATT negotiations and develop its case for that, rather than spend a lot of time worrying about a bilateral arrangement with the US?

Dr. Clarkson: There is a lot to be thought of in that direction. If Canada could get GATT seriously to consider



countervailing legislation and could get some international consensus as to what is acceptable as a target for countervailing, such as what subsidies are permissible, then we could reduce the threat to us from the US, if the US accepted the GATT framework, which basically it does.

There is always a problem with GATT negotiations because the Americans are very strong and they resist giving away what they do not want to give. They want trade and services, but they do not want to reduce their countervailing capacity. A significant option to the free-trade option is to push at the multilateral level for a code of countervailing that would reduce the threat we are exposed to. That is a viable approach.

Mr. McFadden: We probably want services included too. Our exports of services are becoming more and more important. We probably have a common interest with the Americans on that one.

Dr. Clarkson: We have been supporting the Americans on adding services to the agenda, presumably because our banks are big multinational players and want access to other economies.

Mr. McFadden: The larger engineering firms as well. There are a variety of foreign projects they would like to participate in.

3:20 p.m.

Mr. Ferraro: To get back to the political thing for a minute, in my view, part of the reason for this committee was the action taken by the federal government in looking at the free trade issue. This committee is looking at economic aspects from the perspective of the Ontario government, which I think is justifiable, especially in the light of the federal action. When I listen to you confirm in our minds that we are masters of our own identity or destiny--

Dr. Clarkson: We would like to be.

Mr. Ferraro: --and that there are provincial philosophies on an industrial trade basis, is it not a chicken-and-egg thing from the standpoint that perhaps the federal government should have made sure we had a consensus or national policy before it went after this pie-in-the-sky, free trade? If Ontario, British Columbia or any province nixes the whole thing, we have spent a lot of taxpayers' money at the federal level, in any event, needlessly. Is that not fair? Are we in a particular situation in which that was the only approach they could take to put it on the table? I am not trying to bash the feds.

Mr. Taylor: They have a committee at the same time we have. Do not say they are going after it. They are looking to their committee.

Dr. Clarkson: It is fair to say the federal government is very seriously considering the free trade option. Mr. Kelleher, although he has said there are other options, has made it clear, informally at least, he thinks this is the best of the various possibilities.

Mr. Taylor: The previous administration seriously considered sectoral free trade.

Dr. Clarkson: That is right. The Liberals raised that possibility. It is not clear in my mind how serious they were. What they really wanted to do was show the Americans they had something positive to discuss in spite of all the conflicts on the agenda. In any case, the Liberals raised the sectoral basis and the Conservatives broadened it to some kind of enhanced trade agreement.

There is considerable opinion in this country that free trade is the right road to follow. The Conservative government that was elected with the support of that, particularly in the business community, would not have been doing its job if it had not pursued the issue.

Mr. Ferraro: In your opinion, is that approach more appropriate than getting unanimity among the provinces and then taking it?

Dr. Clarkson: It is just so hard to get unanimity in the country.

Mr. Ferraro: That is the question.

Dr. Clarkson: At some point one will say the federal government has to choose and decide to go ahead. Ideally, we would all agree on what the strategy should be and then get the federal government to do it. When you talk about chicken-and-egg problems, the development of an internal consensus probably has to go along at the same time as negotiations with Washington. If, as a result of this process, Ontario is very clearly going to decide, or at least Ontario politicians are going to make clear they are against a free trade treaty as the best path to follow, I do not see how the Conservative government could go very far with that.

Mr. Ferraro: Maybe this committee should meet with the federal one.

Dr. Clarkson: Why not? It strikes me you are more open-ended.

Mr. Ferraro: We are both spinning our wheels and we are going to end up in the same spot.

Dr. Clarkson: My impression was you are spinning less.

Mr. Ferraro: Not at the same spot; I mean destination.

The Vice-Chairman: We underestimate ourselves in Ontario.

Mr. Ferraro: The federal government underestimates us.

Mr. D. R. Cooke: I do not think we are spinning our wheels.

If we opt not to go for free trade, is it enough to say we merely should press for further GATT negotiations, in view of the fact the free trade argument points out we will be left out of a large market group, unlike most industrial nations that are opting into groups?

If that is the case, we have been hearing an argument we do not look hard enough at the newly developing nations as markets. It has been put to us we should be looking at countries expanding their import markets faster than the United States. Are we in Ontario able to get at those markets? What should we be doing to do so? Have we done anything so far? I am thinking not only of mainland China but such countries as Malaysia and India.

Mr. Taylor: The new Minister for Industry, Trade and Technology will be officially opening the Singapore office at the end of next month. Ask him about expansion.

Mr. D. R. Cooke: Maybe we have no problems now that the government has changed. I just want to be reassured of that.

Dr. Clarkson: Before you came in, I was pointing out that we have considerable access to the American market. Our trade has grown by 15 per cent per year since 1970. The idea we do not have access to a market of 100 million or more is really not valid. We have very good access.

The problem in dealing with the rest of the world is, on the whole, Ontario takes it too easy. We have traded into the American market because it has been very easy. We do not learn much Japanese in our schools. We are not taught the world is a tough place where we have to be good. I do not see any restriction in principle to our being able to trade with Japan and China.

Mr. D. R. Cooke: We heard this morning from the Ministry of Natural Resources that the lumber industry, for instance, has been over in Europe and simply finds it cannot compete financially. The costs are just too great.

Dr. Clarkson: For staple products the transportation costs are a major factor. It is clear we are not going to be able to compete in the rest of the world as easily as we can in the United States. There is some legitimate concern that we are very dependent on one market. If that market is failing, it might be a further reason for caution in more closely hitching our fortune to a falling star.

The big contest right now is between Japan and the United States. If we spend our marginal efforts on increasing our share of the American market rather than getting some share of the Japanese market, we might regret that in the future. It is hard to say that the American economy might suddenly disappear or collapse, but if Japan and the new industrializing countries are faster growing markets, it is obviously not in our interest to ignore them.



Mr. Cordiano: One could safely say it is easier to penetrate the American market than the Japanese market, for example, with all its nontariff barriers and countervail. There are a whole host of barriers.

Dr. Clarkson: That is perfectly true, but we also carry some weight with the Japanese because we offer them a market here.

Mr. Cordiano: Yes.

Dr. Clarkson: If we are unable to bargain that market, that is our problem.

Mr. Cordiano: Right. I am suggesting it is easier to do that. It therefore leads one to assume it would be more natural to enter into a free trade agreement.

What I am trying to get at is the whole question of being competitive on a worldwide scale when we have this huge market staring us in the face. There is less incentive to trade overseas than to trade south of the border.

Dr. Clarkson: Yes, but in the long run we cannot afford it. Trade south of the border also has to be world competitive. Unless the Americans put up very substantial trade and tariff barriers, which they have been dismantling over time, we, too, will be competing with the Swedes or the Brazilians in the American market. In the long term we have to be world competitive even if we do concentrate on the American markets. Other countries are also concentrating on the American market.

Mr. Taylor: We are competing with them in the American market.

Dr. Clarkson: That was my point.

Mr. Cordiano: We are still doing quite well. Our trade seems to have increased. Our exports to the United States have increased but not at the same rate at which they are increasing to other trading partners.

Dr. Clarkson: You may have more recent data in this committee, but we have had a substantial increase in the American market, as I pointed out to you.

Mr. Cordiano: That is what I am saying.

Dr. Clarkson: Fifteen per cent a year is colossal.

Mr. Cordiano: Exactly. It is increasing at a far greater rate than with any other trading partner, which is an alarming factor.

Dr. Clarkson: But we have to be concerned. A lot of those exports are raw materials or only partly processed raw materials. A lot of that is within the auto pact, which is essentially out of our control since it is completely foreign owned.

Mr. Cordiano: That is just it. Entering into a free trade agreement with the United States would only perpetuate that. The industries in which we are going to be competitively in an advantaged position are also the ones where we are not increasing the number of jobs. The amount of labour going into those industries is decreasing rapidly. Would you agree it would have that kind of impact on those industries?

3:30 p.m.

Dr. Clarkson: We still have some control over our own fate here. If we want to develop high-technology industries we have to improve the quality of our education. We have to put money into those areas. It may or may not happen. I do not think we can predict that just because we have a major reliance on the American market we have to stay at the low-quality end of the scale in trade. We do have some very good companies in high technology, as you know. The steel industry is certainly in better shape than the American steel industry, but in many areas we are less competitive.

While government cannot do everything, this does not mean we should throw up our hands and let the market look after it. Government can provide help to industries. It can provide industry with well-educated and well-motivated people to work.

Mr. Knight: I would like to explore with you a theory you proposed a little earlier. You mentioned that the United States would like to have talks and negotiations. You used the words "use us as a bargaining chip." I was a little disturbed to hear that and I want to explore it further to find out whether you had any basis for suggesting there might be such a thing as a manipulated free trade issue going on leading to the next GATT round of talks. Is there something that has made you believe that is occurring?

Dr. Clarkson: I cannot give you documents to make the case. We know the main American objective is another GATT round of negotiations, primarily to get services accepted under GATT, so all the barriers that countries have against American exports of films, television, banking facilities, computer programs, all the protectionism that exists in the world against American services, can be dealt with by American industry.

We have to remember that services for the Americans is the hope of the 1990s and decades ahead, in the way the automobile was the motor for the American economy in the 1940s and 1950s. Services is that motor now and in the future. They also have the advantage of being a leader in services, so they want to increase trade liberalization in services. It is the big priority. We talk about getting a consensus in Canada on some issues. If there is any consensus in the United States on international trade questions, it is on that. It is a very big priority.

Their problems with Canada are minimal. They have the access to our market they want, except maybe for California wine at the Liquor Control Board of Ontario. The nickels-and-dimes problems will always be there, but they have the major access to our markets that they want. They have the raw materials from us that

they want. There is no great long list of items that are big ticket items on their agenda with Canada.

To answer your question, my suggestion comes from research I have done in talking to officials and observers. I cannot cite a specific inside document or leak. People in Ottawa, in the Department of Finance and the Department of External Affairs, have the sense from talking to their American colleagues over the years that the free trade deal with Canada is not that big an issue for them. It is an option for them, however, if they cannot get the multilateral round going.

They want to deal with the European Community and Japan. Those are the two most protectionist blocs that affect them very directly because of the trade imbalance with Japan and the European common market's protectionism on agricultural products, which they think is unfair to American exports. Those are the big objectives they are dealing with.

It makes more sense to get negotiations going with Canada as a side part of the game. It is not the main menu; it is a backstop position. They are saying: "If we cannot get general agreement, then we will go after bilateral agreements. We already have one with Canada, at least on the road. If you are not willing to talk collectively, we will pick you off one by one." I cannot give you more than a sense of that being in the back of their minds.

Mr. Taylor: Is there a North American context in terms of continentalism?

Dr. Clarkson: What do you mean?

Mr. Taylor: I am thinking in terms of the North American continent.

Dr. Clarkson: Mr. Reagan has talked for a long time about North American accord. He did this well before the 1980 election when it came to our notice. He has talked about Mexico and Canada being with the United States. It is kind of very ill-defined, but some region that would be North America and in which there would be resource and market sharing.

Mr. Taylor: And defence.

Mr. McGuigan: That is when he wanted Mexican oil.

Mr. Taylor: It strikes me that there might have been a move to develop more of a community of North American interests in addition to what you are suggesting about another GATT round.

Dr. Clarkson: Are you talking about a GATT-like round for North America?

Mr. Taylor: No. The next move presumably will be a continuation of GATT talks, which the US is anxious to have, and I guess we and others are. There is a liberalization of trade around the world, but I see a Canadian-US bilateral treaty possibly as



more significant in other aspects, that is, defence, economics, developing a stronger North American community which would be almost a common market.

Dr. Clarkson: You mean this is happening with auto treaties in any case. I think that is true; there are the auto pact, the defence production sharing arrangements, Hollywood, the American film industry. Many aspects of our life are continental. We have virtually no control over our consumption of culture in most of the important areas of culture such as television and film.

Mr. Taylor: I would like to ask your personal view. Do you subscribe to the view, in an historical perspective, that there has been a shift of the economic centre of gravity from London, 100 years ago, to New York and now to Tokyo.

Dr. Clarkson: There has been a shift. I thought you were going to stop in the American southwest, in the sun states.

Mr. Taylor: No, although that is happening, the megatrends and some of the stuff you see there. I am thinking more of the world economy--

Dr. Clarkson: You cannot dismiss Europe by saying the centre of gravity has left Europe. Europe is a very big market. It is not doing as well as the American economy, but there is a significant market there.

Mr. Taylor: But there is a tremendous shift to southeast Asia.

Dr. Clarkson: Sure.

Mr. Taylor: I am trying to clarify my thinking as a result of hearing your views today. Correct me if I am wrong, please. What you are saying is that Ontario's best position, and presumably that would be Canada's best position, would be to continue on a world basis of diminishing tariffs and nontariff barriers and just respond or react to the growing US protectionism in the best way we can do, as we have been doing in the past with some degree of success. In doing that, of course, we claim exemptions. Our exemptions are often based on the unusual position of the Ontario and Canadian economy with the US economy and the degree of economic dependence and integration already.

Dr. Clarkson: In many cases we go after an exemption because we have not offended the American subsidy rule. In steel, as an example, we were fair traders. We went after an exemption, through legislation or some action that hurt those who had been unfair traders.

Mr. Taylor: But we develop a special case for Ontario and Canada because of the historic development of the two countries and the degree of economic dependence, reliance and integration that has developed.

Dr. Clarkson: But I think at least we should not be caught--

3:40 p.m.

Mr. Taylor: We should not be caught in that net because, if it is steel, you are worried about Brazil or Korea or Taiwan. We are good guys.

Dr. Clarkson: It is worth remembering that, say, three decades ago we tended to go after exemptions as if we were the country cousins of Uncle Sam. Do not do it to us--

Mr. Taylor: You mean on a family basis.

Dr. Clarkson: A very informal basis, a family basis if you like. Things have changed a lot in the last few decades. Canada now acts with the US much more as another state than simply as a northern region of the American economy. It appears surprising if we have, in fact, integrated more into the American economy in many ways. However, Canada has become more like a normal nation-state in the world, in pushing and dealing with the Americans than we used to.

For example, in 1963 when they brought in the interest equalization tax, which would have hurt Canada's ability to raise money in New York, what we did was shovel Minister of Finance Walter Gordon, Governor of the Bank of Canada Louis Rasminsky and Deputy Minister of Finance Bob Bryce on to a plane, wound it up and sent it off to Washington to get an exemption. Over the weekend they got an exemption from the interest equalization tax. A deal was struck with the President, one or two figures in Congress, a couple of bureaucrats, and that was it. It was then a very simple bilateral world. We dealt with things in a very personal way, the way John Turner says, one-on-one.

We do not do things that way any more. We cannot get an exemption that easily from something Congress has done. There are so many more interest groups involved, so many pressure groups, business groups, citizen groups, states, fishermen's associations. While we still go after exemptions, it is at a much more arm's-length relationship we bargain: "If you do that to us, we will do that to you. Watch out." There is a very long agenda that the secretaries of state have on their plates every three months when they meet.

Mr. Taylor: I have heard the argument for freer trade based on the ever escalating aggravation of protectionism applying to Canada as well as the rest of the world, and having to continually make our special cases for exemption. There are 200 or 300 bills in Congress now that are protectionist and that may injure our own economy. Then the argument is: "Look, we have had enough aggravation. Let us put an end to this and maybe now is the time." That is the type of argument I hear.

What you are saying is we really do not need that. If that is the reason, forget about it. Am I correct in that?

Dr. Clarkson: If the reason is political pressure exerted through Congress as a result of economic pressure because the economy is in bad shape, I do not think a treaty is going to resolve the problem.

Mr. Taylor: Are you saying they will not honour it?

Dr. Clarkson: It is not that they will not honour it, it is that the nature of the American political system is to respond to defend. Those interested are getting hurt; they ask for help.

Mr. Taylor: Or they will give it a back-page reading or something. You are saying, in practice it will not work anyway; do not proceed with free trade for that reason.

Dr. Clarkson: Or to put it this way, if Congress is in an unreasonable mood as far as Canada is concerned, because of the way the US economy is hurting, can we reasonably expect it to negotiate a treaty with us? Or, to put it another way, if they have a gun to our head with the lumber countervail, do we expect to get a good deal out of it if we sit down for serious negotiation? Dr. Yeutter said, "No, we are going to deal with the lumber case before we do any free-trade talks with the Canadians."

Mr. Taylor: But we have heard the argument that if there was a treaty the US, in a political sense, when approached by other nations for exemptions, could say, "Sorry, Canada is special because we have a treaty with it." That helps them domestically as well as externally.

Dr. Clarkson: That might help. It would be a plus. We are both assuming there is a treaty that is very advantageous to us, and in competing with the Israelis or French, or whoever, it will give us a special advantage in the American market. That is a big assumption. We do not know what we would have to give to get that treaty.

Mr. Taylor: You are not buying that argument because, from what I hear you say, it is not worth it.

Dr. Clarkson: I can conceive of it working, but we have to make a lot of assumptions about the quality of that treaty and how we get there.

Mr. Taylor: I understand all that. What I am trying to get at is where you are coming from.

Dr. Clarkson: I would be delighted if we had a terrific treaty. I find it hard to imagine that we would get one that had all benefits and no costs. We are not going to get that kind of treaty.

Mr. Taylor: No, that is not realistic.

Dr. Clarkson: There would have to be some benefits and we would pay the price for them. If anyone told you what the price would be of exemption from American countervail legislation--

Mr. Taylor: Nobody knows. It is a fear of the unknown.

Dr. Clarkson: Has any one of you had any American government experts or American politicians tell you Congress would agree unilaterally to disarm its economic arm, its defence system?



It does not strike me as sensible.

The country has spent the last 15 years building up and perfecting its countervail capacities. It is a very sophisticated system. You probably have had some exposure to it already. It is very detailed. It is a wonderful system for American businesses if they are in trouble. I cannot believe the Americans all of a sudden will say, "We will disarm unilaterally or bilaterally with Canada, our biggest trade partner."

Mr. Taylor: I am not criticizing you in any way. I am trying to define your position. Are you saying it will not happen anyway, so forget about it?

Dr. Clarkson: Yes, I am sceptical that we would get an acceptable treaty. I am sceptical that even an acceptable treaty would solve the problem of American protectionism if the American economy continues to be in bad shape.

Mr. Taylor: What you are saying, and I am not trying to put words in your mouth, is to forget about that because it is not going to happen anyway; get on with another approach.

Dr. Clarkson: Get on with improving our own economic performance. Ultimately, as you have been pointing out, we have to compete in the world. The more time we waste on an academic debate on free trade the less time we have to get trees planted in the north, educate our kids better so they can handle the new technology, or make our companies more efficient. You are putting words in my mouth. It is an enormous red herring.

Mr. Morin-Strom: I thought we might go back to the economic theory that free trade and unfettered economic competition will be a benefit to both economies and will maximize the total wealth, presumably, of Canada and the US. In other words, it will be a gain to society in general.

I wonder how this might be applied to what happens politically in competing against countries with their own economic and social and political systems. We seem to be saying that in order to free up our economies to be more competitive, we have to set the same rules for Canada and the US; we have to subject our political decision-making to what our much larger American partner is doing.

3:50 p.m.

It seems to me we would be taking away the freedom of Canadians to determine for themselves where they want to put their priorities. If we restrict the Canadian political system from being able to say we want to have a better health care system than the US, if we say we cannot have a cleaner environment than the US, if we say we cannot implement Canadian contract legislation to ensure we get jobs from major imports into our country, if we say we cannot compete with the rest of the world by determining an industrial strategy that makes sense for our own country, is that not totally contradictory to the economic argument as it applies to individual firms?

In other words, as to the economic argument that free trade is going to free up competitive forces in the economy, the result of what we are going to get in this free-trade proposal seems to be a restriction of our political ability to compete as a nation in the rest of the world in providing our people with the best possible lifestyle.

Dr. Clarkson: I think a free-trade agreement would limit the capacity to make an industrial strategy. Nevertheless, we are constrained very seriously by the policies of other countries, in particular the US. Even France, a country more powerful than us, was not able to run its policies out of sync with those of the rest of the western world. Mitterrand came to power and brought in policies he could not sustain in the face of everyone else.

I do not want to paint too bold a picture of Canadian or Ontario independence in our capacity to do something that is very different from the rest of the world, but we are dealing at the margins. To the extent we want to do something about our mining industry or other sectors of our economy, I think we would reduce our capacity to do it if we got into a one-sided agreement with the US, one-sided because of the greater power of its economy to impose the rules on us, rather than the opposite.

Mr. Morin-Strom: Would one of the potential losses be the democratic process in Canada?

Dr. Clarkson: There is no restriction. We can have elections all over the place. We have lots of municipal, provincial and federal elections. The issue is, when those men and women get elected are they actually able to do anything. We have lots of democracy and participation, but how much power is left to be used by those who win the game?

Mr. Morin-Strom: Is it not possible the political decisions that have been made in Canada in the past will continue to be made in the future? In an economic sense, are they not better for our people than the American ones? In an economic sense, we would be losing by being forced to move our political decision-making on social and economic issues to match that of the Americans.

Dr. Clarkson: That would be my judgement. It is implied by the position. We cannot say all Canadian decisions are better than all American decisions. It may be that a lot of marketing boards put up the costs of food products to Canadian consumers, but they may be good for Canadian farmers. I would not want to say everything the Americans do is wrong and everything we do is right. For instance, their deregulation may be a good thing and our transportation industries may not have enough. I am not an expert in that area. There may well be some things we have had to do because the Americans have done them, we have had to follow suit and it has been in our interest to do so. You have to look at each decision.

We accepted American technology in television and have fuzzier pictures on our TV screens than if we were in Europe and had accepted European standards. It probably would have affected

ownership patterns in the industry if we had a European standard. You have to look at them as single decisions to see which turned out to be better for us or for them. I do not think it would be fair to expect me to categorize such things as that.

Mr. Morin-Strom: The Canadian people, having chosen the representation they have in the past, having enacted the laws and having set the economic and social systems in place, feel they are more appropriate than the one the Americans have. To be forced to adapt our systems to American ones because of an economic argument on free trade does not seem to be sensible.

Dr. Clarkson: It comes back to a question Mr. McFadden raised a few minutes ago about integration and what constitutes the strength of Canadian society to hold together. We have seen a real capacity to survive in the face of very real unhappiness in Quebec. People there ultimately made a decision not to move away.

It is not as certain anglophone Canadians have so clear a sense of who they are that they would opt, in bad conditions, to stay independent. If already 20 per cent would prefer integration or annexation, if those data are valid, how many more would if things got really bad, if the market fell apart for all our main products or the automobile industry falls apart and Japan takes it over completely? Imagine a very bad scenario. If we do not have any sense of who we are, or if we are losing that because of further cultural integration with the US, it is conceivable we would not have the political will to keep going on our own.

To that extent, our own education and medical systems and Workers' Compensation Board, with all their warts, help. Also, elections that take place all the time in our political system continually remind us we are Canadian and, implicitly, not American. They help us develop a sense of cohesion, socially and politically.

When we lose some areas of control over our own interests, we are also affecting how well we can survive as a separate country. These are all vague propositions and you cannot pin them down with the kind of data you had last week. However, they are real.

Mr. Morin-Strom: I am not sure the 20 per cent figure is a disturbing one if you do not know the relevant history. It may be that for the last 120 years 20 per cent of Canadians have felt they would prefer to live in the US, and maybe it has been consistently 80 per cent of the population that thinks Canada is the better country and prefers the lifestyle we have here.

Dr. Clarkson: On this point, Mr. McFadden proposed as evidence a piece of political opinion poll research coming from a good Conservative company. I would advance another from another Conservative one. Allan Gregg did a survey in the spring of 1985 for Decima Research Ltd., in which a number of questions about the Canadian-American relationship were raised and one is interesting on this issue.

People were asked to respond to these statements: "Some



people say the United States is the most important country in the world to Canada and we should concentrate our efforts on promoting co-operation and good relations with the US. Other people say that although good relations with the United States are important, it is more important for Canada to broaden its relations with other countries so we are not so dependent on the US. Thinking of these two points of view, which one best reflects your own?"

This survey found 31 per cent said, "concentrate on relations with the United States," and 68 per cent said, "broaden relations with other countries." So it is a very interesting corollary to the 20 per cent. Perhaps there is a substantial amount of opinion that indicates we are nervous about how dependent we are on the American market and would like to see efforts made to diversify.

Mr. Taylor: They may be relating to their mother countries, too.

Dr. Clarkson: There is a very substantial part of the population in Canada for whom the mother country is the United States. The Alberta population would be an example. The ties across the border are very intimate.

Mr. Taylor: I guess our philosophy has been one of regionalism and multiculturalism and so on, so that often one thinks not of a Canadian identity but the first generation thinks of its mother country as opposed to Canada. It may take a few generations to develop that Canadian patriotism.

Mr. Chairman: That is a weighty question.

Mr. Taylor: Yes.

4 p.m.

Mr. Chairman: Would it be correct to suggest that in the period after the Second World War through to possibly the end of the 1950s, there was a strong feeling in Canada that we should either join the United States or that we should become more pro-American? Then we moved away from it. Maybe there is a little bit of movement towards it again.

Dr. Clarkson: I think that is probably true. I do not have all the data at my fingertips here.

Mr. McGuigan: The Vietnam war moved us away from them.

Dr. Clarkson: There were very close feelings between Canada and the United States during the Second World War, but do not forget that our political leaders then were still fighting the battle of getting free from the Brits.

Mr. Chairman: I recall reading an issue of Maclean's magazine when I was in public school that suggested a poll showed a huge number of Canadians wanting to join the US in those days.

Dr. Clarkson: I think the Vietnam war was a big factor. The energy issues, such as the fear of the multinationals preventing us developing our energy industry in the early 1970s, were what led to the national energy program, which was very popular, however unsuccessful. Then the bad relations of the early 1980s did lead to the feeling that the Liberals had been too hostile. Whatever the truth of that was, there was the feeling.

We may be back in a situation where good relations are very much back on the agenda. There is a very real fear of getting into bed with Mr. Reagan, which Mr. Mulroney is suffering from. I do not know about the polls, but certainly among the analysts who write, there is a good deal of fear that he has been too complacent, giving away too many cards in return for what he got.

On that topic of public opinion, I think you are dealing with a public that is aware of some differences between Canadian society and American, and would not want to give up those very intangible things that mean that I can bicycle around this city without being afraid of being mugged or can walk almost anywhere in any big Canadian city without fear. There is a pride.

You talk about new immigrants. People have come to this country in this generation, and their kids already have a down payment on a house or have jobs. I know there are a lot of people without jobs, but I think there is a very real core of loyalty to the country, even if you would not call it nationalism and flag-waving of the Uncle Sam chauvinism type. There is a very real sense that Canada is a terrific place to be.

Mr. Taylor: Without putting it on a national plane, there is a lot of self-interest as well. We all have ideals and that is as it should be, but it is interesting that when the energy crunch and the oil crisis were on, the first thing we knew we had an outcry that we should be taking off the air-pollution control gimmicks on the automobiles. It is amazing how fast you can cut some of these items that are for the betterment of society and the environment as a whole if you are going to be economically depressed.

Dr. Clarkson: Yes, but if you are talking about self-interest, I think a lot of Canadians realize it is in their interest that their government survives. They get real benefits whether it is municipal, provincial or federal. They want them to sustain the capacity to operate. Going back to the question about public opinion, there is some fear that we lose, or you people lose, our capacity to run our own affairs.

Mr. Taylor: What I am really saying is that it is very dependent on the economic environment as to what our response is. Theoretically, we can sit and preach from our comfortable pews, but when you are a part of that experience, it would be my view that the population will react much differently.

Dr. Clarkson: But even in the worst of the Depression in the 1930s, Canadians did not want to join the United States. There was not a big outcry in the recession in the early 1980s that we solve our problems by integration.

Mr. Taylor: I am suggesting again that the makeup of Canada was a lot different then in terms of the population. There was a lot of loyalty to the crown and that type of thing.

Dr. Clarkson: Yes, but if you are arguing about self-interest, Canadians may have a different racial mix now, but they too can identify what is in the interest of the country and what is not. Probably the Decima polling and the Michael Adams polling do show some real sense of what is in the national interest and the fear of giving away too much to Uncle Sam.

Mr. McFadden, do you know any more about this? I think they are doing a survey at Environics Research Group.

Mr. McFadden: There is a major study going on this fall. They are going to do a companion study. There will be identical surveys of American and Canadian opinion on the same questions--Yankelovich out of New York and Mike Adams out of Toronto--with the idea of comparing Canadian and American viewpoints. I do not know the last time that was done, but it will be quite interesting to compare and contrast Canadians and Americans. I know they are proposing some sort of conference on it.

This committee might even be interested in taking in that information or taking it as evidence when it comes out. I can find out when the study will be available. I know it is going to be in the public domain somewhere. It might be of interest when we are down in the United States to talk to Yankelovich, who is one of the top analysts of American public opinion. Of course, we have people up in this country to analyse where we stand.

Mr. Taylor: They did not do a very good job during the last election.

Mr. McFadden: Who was that?

Mr. Taylor: The experts who were analysing public opinion.

Mr. McFadden: I guess it depends on who is analysing it. There is no doubt one of the things that probably has not been assessed--and I think it comes up today--is that we have a view of what the Americans may want from us. That is one advantage of our going to Washington. We also have a view, in our own way, of what we think Americans want out of the world, and we have an idea of what we think Canadians want out of our part of the world and the world in general.

It might be interesting to get whatever information we can and see how it all fits together. I have a feeling sometimes a lot of our debate and discussion is away above the heads of a lot of people and does not fit the interests most people perceive for themselves, let alone their country. I would not say that is true of this committee.

Mr. Taylor: The atmosphere is very rarified here.



Mr. Chairman: Mr. McFadden, if you could get hold of that survey when it comes out, we would all be interested in it. For the benefit of the committee, you might be interested in knowing that on Radio Noon today a poll was taken of people phoning in. Of the 14 people who called in, 10 were opposed to free trade and four were in favour of it, including one caller from Rochester, New York.

Mr. McGuigan: I would like to suggest that when we are travelling, we do day and night tours of Detroit.

Interjection: We could go out in an armoured car.

Mr. Cureatz: I would like to know how the honourable member knows there is a difference.

Mr. Ferraro: The true test would be when the Jays play the Expos in the World Series. We will see how close we are.

Mr. McGuigan: I have travelled through Detroit many times in the middle of the night when attending the public market over there and I can tell you I was shaking.

Mr. Chairman: I would like to thank Professor Clarkson for being with us today. We go back at least 18 years. As usual, Stephen, you have been succinct and understandable. You have given us a meat-and-potatoes presentation and we have eaten it up. We have enjoyed it very much and it has been very helpful to us.

There is one other matter before the members go. Tomorrow morning there is, unfortunately, a hiatus in our program. We thought we were going to have some confirmations and they did not occur. It is the only one we have during the course of the week.

Coincidentally, tomorrow at 11:10 a.m. I am to appear before the Board of Internal Economy to present the budget. You will recall at the beginning of last week you endorsed a budget of \$176,000 that did not include travel, which the Legislature has endorsed us to make, and did not include staffing. Mr. Arnott has now prepared details of a budget for travel which we might take a look at. Members of the committee might prefer to look at this now. If we did it tomorrow morning, I am sure you would stay all morning arguing about it.

4:10 p.m.

Mr. Cordiano: May I make a suggestion? We were to meet Wednesday after the hearing. Would it not be more appropriate to do that tomorrow morning and fill in the time we have?

Mr. Chairman: The only argument against it is that by Wednesday afternoon we will have had three other submissions--from Frank Stone, the Ontario Federation of Labour and Mel Watkins. I do not know whether that will get us any further in our deliberations.

The position Mr. Cordiano is taking is that by tomorrow morning we will be in a position to give some direction to the researchers with regard to structure. I have to be in attendance before the board tomorrow morning at 11:10 a.m. in any event, because it will not meet again until September. That is why we have to get something in front of us.

Mr. Mackenzie: This is not an absolute matter, but I would much rather have a session with at least one labour group such as the OFL before we sit down and discuss exactly what further direction we may be going in.

Mr. Cordiano: I take that back.

Mr. Chairman: It will free you up to do other things tomorrow and then you will have a heavier day on Wednesday. However, it might be a little more efficient as far as the members' time is concerned.

Mr. Cordiano: We are not meeting tomorrow morning at 10 o'clock as scheduled.

Mr. Chairman: That is right.

Would you like to look at the addendum to the budget? Mr. Arnott essentially has picked three cities more or less out of the air. I will explain that to the committee. We have not made any final decisions on travel. I hope they will endorse this as a ball park for travelling. We have not really discussed where we are travelling to in Ontario.

Mr. Mackenzie: If there are hearings in Thunder Bay, Sault Ste. Marie and Windsor, you have not allowed for accommodations for those cities.

Mr. Chairman: There is no allowance at all for food for the researcher and the clerk. To save money, we will expect them not to eat.

Clerk of the Committee: That sounds fair to me.

Mr. Chairman: I think so.

Mr. Mackenzie: I do not know the procedures, but you are going to have to take those matters into account.

Interjections.

Mr. McFadden: You can go to Thunder Bay in the morning and come back on a late plane.

Interjection: That is possible. It would certainly save money.

Mr. Mackenzie: If you are going to have hearings, it does not make much sense. You are going to have an overnight stop.

Mr. Chairman: Apparently the thinking is we could do those places in one day. It might be better if we were to go to Thunder Bay and then to Sault Ste. Marie. That might save a little travel cost. We could spend a night or two up there.

Mr. Taylor: How are you weighing this, Mr. Chairman, with regard to priorities? I can understand Washington and Ottawa in the fall. How do you propose to fit in these other centres? With respect to priorities, I do not know why it should be Thunder Bay, Sault Ste. Marie and Windsor.

Mr. Chairman: My own concern is that we have to get into northern Ontario. I believe their perspective is a bit different from ours in the south. Other than that, I do not have strong views as to communities.

Mr. Taylor: If we are going to schedule a number of public meetings, you are going to have to pick centres across Ontario so you do not discriminate. If we are in Ottawa, that may be the time to have a public meeting as well as meet with the members, so you will have to schedule that.

Mr. Chairman: Yes.

Mr. Taylor: We have Toronto, Ottawa, London and Windsor--these are typical larger centres you visit anyway. You may want to schedule those things. Then there is the north. We have one swing through the north. Whether it is Timmins, Sudbury, Sault Ste. Marie and Thunder Bay, or one or two of those, I do not know. Again, it depends on the expression of interest as a result of the advertising. If you get a lot of response from the centres as a result of your newspaper advertising, you may want to have a hearing there to accommodate those people who have expressed an interest.

Mr. Chairman: I think you are right. This has been ball-parked by Mr. Arnott. We have not really looked at it very closely as to what we should do. It is just a case that we have to get something in front of them tomorrow.

Mr. Morin-Strom: I think I should speak my opinion that it is very important that we go to northern Ontario to get the perspective of the people from the north. The people in the south are more aware of what goes on in Toronto. The media in the Toronto area have a fairly good reach to much of southern Ontario, but in northern Ontario there is a little different perspective from that down here, a little different understanding of what is going on and a lack of awareness as to hearings that would actually be going on here in Toronto.

Mr. Taylor: As a native of Timmins, I agree, but what I am saying is that I think it should be representative when we visit.

Mr. Morin-Strom: I think we should be at as many places as we physically can see. To some extent we have to respond to the advertisements we put out and where requests come in showing people want to meet.

Mr. Chairman: Should we be spending more time in the



south, too? We have only picked one city in the south.

Mr. MacGuigan: One area that comes to mind is Kitchener-Guelph-Stratford-London and that whole area--terrific spot. In Windsor, you are going to cover the automotive trade, but then there is all that furniture and all sorts of other trades in central southwestern Ontario.

Mr. Chairman: Are you suggesting we go there by bus? Nobody is going to accuse us of overspending. We can go to Kitchener by bus.

Mr. Mackenzie: I think you have covered that. Obviously either Kitchener or London would be the only two centres you would have to worry about. You have covered Ottawa, Toronto--where we are holding most of the hearings--and Windsor. In the north, I can see nothing wrong with the Sault and Thunder Bay. The area which might be questioned is either Timmins or Sudbury, one of the two.

Interjection: Or both.

Mr. Taylor: Maybe Picton or Napanee.

Mr. Mackenzie: That is going a little too far, Jim.

Mr. Chairman: Is there merit in holding a hearing in a specifically agricultural area? I suppose Kitchener is a market area for the area north of there.

Mr. Knight: Mr. Chairman, Stratford and Kitchener have been mentioned. Perhaps we could go halfway between to Punkeydoodles Corners, if anybody knows where that is.

Mr. Chairman: I think what we will do, if the committee agrees, is I will have the clerk make some adjustments in accordance with what I think is a growing consensus, including adding some money for some accommodation in the north.

Mr. Mackenzie: I think you are going to have to.

Mr. Chairman: If it is all right, we will make those adjustments and proceed to the board tomorrow morning.

The committee adjourned at 4:19 p.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS  
ONTARIO TRADE REVIEW  
TUESDAY, JULY 30, 1985





SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)  
VICE-CHAIRMAN: McGuigan, J. F. (Kent-Elgin L)  
Bennett, C. F. (Ottawa South PC)  
Cordiano, J. (Downsview L)  
Ferraro, R. E. (Wellington South L)  
Knight, D. S. (Halton-Burlington L)  
Mackenzie, R. W. (Hamilton East NDP)  
McFadden, D. J. (Eglinton PC)  
Morin-Strom, K. (Sault Ste. Marie NDP)  
Stephenson, B. M. (York Mills PC)  
Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:

Cureatz, S. L. (Durham East PC) for Miss Stephenson  
Leluk, N. G. (York West PC) for Mr. Bennett  
McKessock, R. (Grey L) for Mr. Knight

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

Witness:

Stone, F., Research Associate, International Economics Program,  
Institute for Research on Public Policy

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, July 30, 1985

The committee resumed at 2:10 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: We shall start now. Mr. Ferraro has sent word he is going to be late. There is a bit of housekeeping before we start. I appeared this morning before--

Interjection: The Board of Internal Economy.

Mr. Chairman: --the Board of Internal Economy. I have a Freudian memory block on the name. I attended with slightly revised supplementary estimates. They were up about \$4,000 from the ones distributed yesterday, based on our discussions on internal travel in Ontario, to include Kitchener and possibly to alter our routes in northern Ontario a little, plus the fact that we indicated we might want to feed the staff during that trip. That was not included in the initial estimates. I had no problems at all. The only discussion was on why we only wanted to spend four days in Washington. We probably would need more to learn very much.

Mr. Taylor: I do not know whether that is an insult or not--the committee of slow learners. I can see the headlines.

Mr. Chairman: That is probably what it was.

In any event, I also indicated to them we would be back later because our budget does not include any research money. I indicated we were finding we need some research assistance in the areas we discussed a couple of days ago concerning something a little more specific on the actual adjustment problems we might face.

Mr. Traficante has been looking into that. He has some quotes that would seem to indicate it is an astronomical chore we are asking people to do if we do ask them to do it. Those quotes would seem to suggest it is going to take a long time to do it too, which begs the question of whether or not we should be looking at getting that done eventually and perhaps getting something done that would be of assistance to us within the next few weeks so that we would have it available to use in our interim report.

Mr. McFadden: Could I get an explanation of what the research methodology is going to be? It could be a short-term or long-term approach to all this. How would you see developing the model in terms of deciding what the impact would be?

Mr. Taylor: Before we get into this, we have Mr. Stone from Ottawa. Are you from Ottawa, Mr. Stone?

Mr. Stone: Yes.

Mr. Chairman: Yes, he is from Ottawa.

Mr. Taylor: He is scheduled to appear at two o'clock. I am wondering if we should have this conversation in connection with the committee work after Mr. Stone. I do not know what his plane time is or whether he is going back. He may be going back today.

Mr. Chairman: I am quite prepared to do that if Mr. McFadden is.

Mr. McFadden: My question can wait until after that.

Mr. Chairman: I wanted to put the whole issue on the table, but maybe we can talk about it tomorrow afternoon because we talked about having a meeting tomorrow afternoon to discuss matters.

Mr. Taylor: It might take some time and I hate to see a witness delayed.

Mr. Chairman: Mr. Frank Stone is here. He is a research associate in the international economics program of the Institute for Research and Public Policy. Mr. Stone's background, as is indicated in his submission, has involved a lengthy period of time with the Department of External Affairs and he has been involved in the General Agreement on Tariffs and Trade negotiations and various trade negotiations.

He will be of assistance to us this afternoon in looking at the procedure if we were to be involved in a bilateral option with the United States. If we were not involved in it, he can tell us about some of the nuts and bolts that are required in getting some of those things under way. I think he will open some doors for us on the whole issue of how we go about it and, to some extent, how we would adjust to it if it were to occur.

FRANK STONE  
INSTITUTE FOR RESEARCH ON PUBLIC POLICY

Mr. Stone: I am very pleased, indeed honoured, to be invited to appear before you today. I hope I can make a useful contribution to your deliberations. I am at your disposal as long as you can stand it. I have booked a plane back to Ottawa this evening.

As the chairman mentioned, I am associated with the Institute for Research on Public Policy in the international economics program. I might just note that our institute is an independent research institute, that is to say, independent of government. It is funded partly by endowments made a number of years ago by the federal and the provincial governments, partly by



money made available by foundations such as the Donner Canadian Foundation and the Ford Foundation, and partly by money we earn ourselves by selling contracts or doing work for any clients who wish to use our services, although we have an important proviso that work we do for them is independent research work and has to be published and so on. We do not in any way try to serve any special interests of clients or anyone else.

Mr. Taylor: You do not find any problem accepting government funding in regard to the possible compromising of your professionalism and independence?

Mr. Stone: No. I must say we have not encountered that.

Mr. Taylor: The reason I mention this is you would know Peter Dobell.

Mr. Stone: Yes.

Mr. Taylor: He had mentioned to me a concern in that regard with respect to soliciting funds from government organizations. I guess there would be the appearance of independence as well. I did not know, but to me it might be more theoretical than real.

Mr. Stone: I believe his organization is funded on a shorter-lease basis than ours is. We do not go back to government periodically, or ever, for new money. They have made endowments which are safely lodged in the bank and earning 10 per cent, or whatever, and that is it.

Mr. McGuigan: They are irrevocable.

Mr. Stone: As far as I know they are. If we do a contract for a government department, we write the terms of reference. If they like it, they will accept it; if they do not, we can adjust it nevertheless. But the work is our own. I have never encountered any instance of clients trying to influence our work except in a legitimate way trying to tailor it to serve the purpose they want.

The institute is an umbrella organization with a number of programs centred in different parts of Canada. Our international economics program is the largest and it has been centred in Ottawa since it started. I think I left some tourist literature or propaganda about the work of the institute and its publications with Mr. Traficante.

Just another word about my own background. Until I retired from the Department of External Affairs about four years ago, I spent most of my career there in the area of commercial policy, trade negotiations and all that, partly in Geneva and partly in Washington. Right now I am doing some work on Canada-United States relations, not necessarily linked with trade, but broader questions, such as what are the issues in the relationship, how are they managed and so on.

2:20 p.m.

I did have an experience negotiating with the Americans in bilateral arrangements. I was associated in a rather peripheral way with the negotiations in the 1960s of the automotive agreement. I was more directly concerned in the early 1970s with the negotiation of the Great Lakes water quality agreement where we worked closely with the government of Ontario and the various departments here involved in and associated with the negotiation with the International Joint Commission.

As I explained to the chairman at lunch time, my presentation is not really concerned with the economics of a possible new Canada-United States trade agreement. I am not really qualified to speak about the benefits and costs to the economy as a whole or to the chicken industry or the furniture makers. I am sure you will get more qualified--

Mr. Taylor: Better guessers?

Mr. Stone: I guess my only thought on the subject is that, once one tries to estimate the costs and benefits to a particular industry such as agriculture or whatever, if it can be done successfully, one then has to add them all together. Even after that has been done, other elements enter into the equation before judgements can be made as to whether it is a good thing.

What might be a good thing this year might have a different complexion next year and might be even better the year after. It changes over a period, as the automotive agreement has changed. It seems to me it is very difficult to be precise. I will not go into that and will leave that whole argument to the side.

What I am more interested in and better qualified to talk about is the framework, the nature of a possible agreement, how it would fit with the General Agreement on Tariffs and Trade, what the General Agreement on Tariffs and Trade is and what the structure or contents would be in general of a new bilateral Canada-US deal if one were struck.

Perhaps I could take a minute for a little history. There are a number of precedents for strictly bilateral Canada-US trade agreements. During the 19th century, between 1854 and 1866, there was in place a sort of free trade agreement called the Reciprocity Treaty that applied to so-called natural products such as agricultural products, rope, candles--things traded at the time--and a few manufactured goods. That was concluded between the United States and what were then the British provinces, including what is now Ontario.

The United States abrogated the treaty unilaterally in 1866, partly because of a resurgence of protectionism after its civil war and a certain amount of anti-British feeling that had been generated by some British support of the southern states. Then, and it seems to me this is significant, for a period of 80 years, which is a very long time in the context of Canada, there was no special trade arrangement of any kind between Canada and the United States. Each country charged the highest tariff on its lists to most, but not all, cross-border trade.

The Americans tended to exempt from their customs duties raw materials that were particularly needed by American industry, such as some lumber and newsprint and so on. This was a very uncomfortable situation for Canada to be in, amounting to a trade war, if you like. That is how I see it.

Especially during the early 1930s, feelings were rather high on the Canadian side about the treatment our goods were getting in the US. When President Roosevelt came to power in the early 1930s, he reversed that US trade policy and they began to include a series of bilateral trade agreements to reduce tariffs, to give other countries most-favoured-nation treatment under their US tariff system.

Notable among these were two agreements with Canada, one in 1935 and the next in 1938. These were strictly bilateral trade agreements that reduced barriers to cross-border trade on both sides and led to a considerable increase in cross-border trade between Canada and the US. After the Second World War, these two agreements were rolled into the General Agreement on Tariffs and Trade.

The GATT was a concept that was developed mainly in Washington but supported by the British and by Canada very strongly. The Canadians were pretty active in getting the GATT going. There was a Havana conference and a proposed international trade organization that never got off the ground. What did get off the ground was the GATT, which contained the essential parts of the proposed international trade organization.

The GATT was concluded and adopted by a group of countries, and we call it a multilateral agreement because a number of countries participated in negotiating it. Originally there were 23, and now there are 90. It is a trade agreement that is common to all the members. At the same time, the GATT is our trade agreement with the US, replacing the earlier bilateral agreements. The rules of the GATT govern our trade with the US, by and large. We had a hand in framing and in negotiating many of the rules, specifically to get a handle on and some influence over US trade policy and its operation.

The GATT also involved a process of negotiations to liberalize trade, to reduce tariffs and other trade barriers, and the negotiations between Canada and the US to reduce American tariffs and other barriers and by them to reduce Canadian tariffs and other barriers. These have always been an important part of the so-called multilateral rounds, including the last Tokyo round. The Canada-US negotiation in the last Tokyo round was one of the principal parts of that total package.

We can think of the GATT as the principal trade agreement between Canada and the United States, but there are several others of a bilateral nature. One is the automotive agreement of 1965, which is not really a free-trade agreement, although it is often called that. On the Canadian side, automobile vehicles and original parts can be imported duty free only by the automotive producers and then only under certain conditions. A proportion of their production must be Canadian content and they must meet other



targets in order to get duty-free treatment. In other words, it is a duty remission game by which Canadian duties are remitted by producers who fulfil conditions specified by the government.

2:30 p.m.

Generally, it has been highly successful, although from the perspective of either country it has had its ups and downs.

Another bilateral arrangement is for cross-border trade in defence goods and exchange of information about defence production and that kind of thing. There is another one I did not mention. It is an understanding on the licensing of what the Americans would call strategic goods to Communist countries or others. Whereas American exporters require a US licence to export these goods, let us say to Britain, France or Japan, they do not need the same licence to export them to Canada. However, there is an understanding the Canadian federal government will impose some controls over the re-export of American goods of the strategic kind that are exported into Canada. I do not know too much about that understanding or how it operates, but it is there.

There is another understanding with the Americans on the use of so-called safeguard import measures, which are import restrictions of a safeguard nature affecting the trade of the other country. That is a bilateral understanding, not an elaborate trade agreement. For some time there has been an understanding on the use of antitrust measures on either side that affect the interests of the other country.

Given the very large exchange of goods across the border and the interdependence of the two economies, it is remarkable to me that there is not more in the way of bilateral deals. One conclusion is that the GATT, as a trade agreement stance, has stood very well as the basic rules of the games for the exchange of goods across the border.

I point out that the GATT is a little more than a body of trade rules. It is also more than a mechanism for the liberalization of trade. It has embodied in it facilities for continuing consultations among the member country governments. Quite a lot of the discussion between Canada and the US about trade matters takes place in Geneva in the context of the GATT work. That is very valuable because we carry out these consultations in a broader context where we often have a few friends who share our interest in trying to get the Americans to do this or refrain from doing something else.

The GATT also has facilities for the resolution of trade disputes. Canada has used it to resolve several trade disputes with the US and the Americans have used it to resolve a few with Canada. Generally, however, the Canadian and American governments try to resolve trade disputes in negotiations or discussions between Ottawa and Washington rather than carrying them into the GATT and fighting them out in front of these foreigners. From a Canadian perspective, those GATT facilities are very useful to have in reserve because we are settling disputes with our big neighbour in the company of other countries that may have the same

complaints we do.

The GATT also comprises an institution with a secretariat, although not a large one as international secretariats go. They have 400 or 500 people located in Geneva, including a few Canadians who do a certain amount of research and analysis. Their publications are good and their analytical quality is very high. It is a well-respected international organization, as such organizations go.

I have always thought, and a lot of people share this view, the GATT system has special advantages for a smaller country such as Canada which has very large trade interests. All our main trading partners are larger countries, the United States, the European Community, Japan. To be able to deal with these countries in a multilateral context where the imbalance between Canada and the US or Canada and the European Community can be evened up to a degree by the operation of that multilateral system is very valuable.

Despite all the strain that has been present in the GATT in recent years arising out of the increase in protectionism, the GATT is still a strong and useful institution. If we make any deals with the Americans, we should be careful not to do it in ways that would weaken the GATT system.

Mr. Taylor: On that last point and on what you have said leading up to it, it strikes me there is great potential for flexibility within the GATT arrangement for sovereign nations. It is a question of how far a nation dares to go for some final arbitration. The final arbitration is sovereignty itself. I have in mind the number of bills now in Congress--someone has mentioned 200 or 300--which manifest a resurgence of protectionism in the US and reflect the special interest groups.

What is the process for resolution of differences between Canada and the US within the respective governments? There has to be some clout somewhere and some credibility in the interpretation of how far you can go and where you are going to draw the line before you start coming into a confrontation situation between the countries or with the GATT arrangements. At times, the Americans might seem to be challenging or ignoring the GATT.

Mr. Stone: That is true. It is also true that the US Congress has never approved the GATT. The GATT is not a treaty in US law. US domestic law will override the GATT if it passes Congress, is not vetoed by the President and gets signed into law. This has happened, but it has not happened often.

The system works because the congressmen who make outrageous proposals that would violate the GATT will be resisted by the people in the US administration, or perhaps by other members of Congress, who will say: "You cannot do that. It is against the GATT rules." Even though it is not a binding treaty on the US Congress, these are undertakings entered into by the US government.

2:40 p.m.

The Canadian government will do the same when people come to urge the government in Ottawa to do things contrary to the GATT rules and Canada's obligations under the GATT. One of the advantages of the GATT is that the government can say, "We would like to help you, but we cannot because the GATT rules prevent us."

Having said that, there is nothing that prevents an individual congressman from putting bills before Congress that would violate GATT if they were implemented. There has been one for an import surcharge that would violate the GATT. The President of the United States has said several times he would defeat that; he would not support it.

There is another bill now before Congress to impose restrictions on imports of textiles or clothing, or maybe both, to 20 per cent of the US market. Again, the President has said he would veto a bill of that kind if it passed Congress, and so on. To some extent the system works such that the President can hold off restrictionist legislation by threatening to veto it.

When you get into things such as the US countervail on lumber or hogs and pork, or the threat of countervail on potatoes a year or so ago, which involved anti-dumping duties, the Americans can make a case these duties are being imposed in accordance with their GATT obligations, that they are not in violation of the GATT if they impose them under their law or GATT law. Similarly, we can argue our quotas on imports of footwear, which have been in place for the last seven or eight years, are in accordance with GATT rules. The government has said that several times. It has said our recent quota restrictions on beef are imposed in accordance with our obligations under the GATT.

Mr. Taylor: Who in this country would make that decision? I am not talking about ministerial responsibility. I am talking about who determines it is within the GATT. I appreciate the need to maintain the spirit of the GATT because there are all kinds of quid pro quos that result.

Mr. Stone: It was a cabinet decision in Ottawa to impose the beef quotas. The government then sent a communication to the director general of GATT to the effect they were being imposed in accordance with the provisions of article 19 and Canada's obligations under the GATT. No country has challenged that. GATT is not a court or a police organization. Countries can take measures. If they say they are in accordance with GATT, that is accepted unless someone objects and challenges it. At that point, and it is often the case, the GATT system operates such that it will establish a panel of independent experts who will examine the whole situation. They will come up with a finding or recommendation as to whether a particular measure is in accordance with GATT.

Mr. Taylor: Is that the government's or ministry's own panel?

Mr. Stone: It is an international panel appointed by the director general of GATT. He would select it. If there was a Canada-US dispute, he would select experts from Finland, Belgium,



Australia, or wherever, who have no interest in that case. They would conduct an investigation, come up with a finding, and very often recommend one government or the other correct the situation.

There is no way of enforcing that, but it carries a lot of clout. The recommendations of panels of that kind are usually observed but not always.

Mr. Taylor: Like the World Court.

Mr. Stone: It is about as close as you can come to international arbitration of disputes, except for the World Court. It is a little more flexible than the World Court. In fact, it is not as legalistic and the outcome is not binding. It is advisory but it nevertheless carries quite a lot of clout.

Mr. McKessock: When you referred to the beef quotas were you talking about the American quotas or the European quotas?

Mr. Stone: The Canadian quotas on imports of beef.

Mr. McKessock: From the United States or from Europe?

Mr. Stone: They were imposed last December on beef imports from all sources. The appeal for our quota came from the Canadian cattlemen who considered themselves injured by exports of subsidized beef from the European Economic Community. But the government in Ottawa handled the situation by putting quotas on all imports of beef. That affected the European community. The United States, Australia, New Zealand and Nicaragua were the only beef exporters.

Mr. McKessock: Those quotas were on before.

Mr. Stone: No, not from Canada. Going back a bit, there was some arrangement between Canada and the United States to control the cross-border trade in beef. I never quite understood it but that was abandoned.

Mr. McKessock: They increased the beef quotas from Europe very recently.

Mr. Stone: Yes, that is right.

Mr. McKessock: They had quotas prior to that. They had them last year and increased them this year about four times.

Mr. Stone: My understanding regarding the increase is that the Canadian government put the quotas on last December. The Europeans objected because the way they rigged the quotas cut the Europeans way back. The Europeans then threatened to retaliate by increasing duties or other barriers against some Canadian exports. So they sat down and negotiated. The outcome was the increase in the quota amount for the Europeans. There was quite a lot of fuss about that by the cattlemen.

Mr. McKessock: Subsequently, beef has dropped \$12 a hundredweight, which means \$120 per steer over the last year.

Mr. Stone: That is right.

Mr. Taylor: We should not take the advice of the ag rep. You should just use your own judgement.

Mr. McKessock: That would have been last year, but this year's steers are--

Mr. Mackenzie: If we can get away from the steers for a minute, can I ask Mr. Stone what, in a nutshell, would happen to GATT and the GATT arrangements if this country were to enter into a much broader free trade agreement with the US? Would that wipe out GATT? Would there still be a role? I would be interested in finding that out.

Mr. Stone: In this paper of mine I take the view that GATT is the basic main trade agreement with the United States. We keep that. We do not disturb that. We have negotiated that over a period of 35 years. If we want to get into a further trade agreement with the US, we should build on top of that. We should build some special arrangements which go beyond the GATT rules or which carry on trade liberalization beyond the extent that has been achieved in the GATT, so we end up with what I call a supplementary Canada-US trade agreement.

Mr. Mackenzie: It would not necessarily eliminate GATT.

Mr. Stone: That is my view. I am not sure that view is shared by everybody in the Ottawa departments or by others.

Mr. Mackenzie: That is what I am getting at. There is a use for GATT. I am wondering what danger it is in if we went into a much broader free trade arrangement.

2:50 p.m.

Mr. Stone: I think there would be. Let us take one example. Over the years, we and other countries have negotiated the American tariff down. Under the GATT system, the Americans have bound those lower rates. In other words, they are guaranteed against increasing. If we were to open up and abandon the GATT, those tariff bindings, as far as we are concerned, would no longer be effective, nor would ours vis-à-vis the United States. We would put in danger the lower American tariffs on our goods that have been achieved over the years in the GATT.

Similarly, the GATT has rules on things such as anti-dumping, on countervailing duties, on safeguard measures for import disruption and for evaluation of goods for duty purposes. All of these things have been thought over and then embodied, signed and put in place under the GATT. I do not see any reason for doing all that again in a bilateral way. In a bilateral way, we should take those arrangements and if we want to improve on them so far as our across-border trade is concerned, and it seems to me that is what we are talking about, we should not throw away the GATT.

If we want to get a better handle on the use by the United States of their anti-dumping system, or their countervailing duty system, and have one that is better than what GATT has given us and stronger than what GATT has given us, we do not throw away the GATT. We try to add some refinements on top of it, some elaborations and some better controls over trade issues which may only arise in the Canada-US context and would not be of interest to, let us say, American trade with India or our own trade with Japan. It would deal only with the peculiarity of our trade problems with the Americans. That is my concept of what a new agreement should be about.

In this way, it is not all that scary. We and the United States say, "Let us look at further opportunities for liberalizing trade between the two countries." I would hope both countries would say: "Let us start with an across-the-board concept that we are going to free all trade. Let us start negotiating from there." I am sure that on both sides there would be products which they would wish to exempt or hold back from the negotiating process.

Mr. Taylor: You would be selective within that umbrella and target certain commodities. You are not suggesting a sectoral approach.

Mr. Stone: No, I am not. I am suggesting the other side, that you put everything on the table and then you negotiate away from it, if you have to. I would assume that on both sides they would come up with some lists that would be exempted. I do not know what you do, for example, about very complicated areas such as trade in dairy products. We do not permit butter to come into Canada from the United States or any other country, and they do not permit butter to come into the United States from Canada or any other country. Can we achieve free trade in butter?

Mr. Taylor: They have different systems for marketing it.

Mr. Stone: Yes, that is it.

Mr. McGuigan: We have let butter in at times.

Mr. Stone: I guess so. I tried to find the time when they did let butter in, and I had a hard time doing it. I think it was back in 1972.

Mr. McGuigan: If you do not let butter in, you end up with too much skim milk powder.

Mr. Stone: Margarine has been on the prohibited list for years. Let us assume we put margarine on the table. Is there a problem with imports of margarine? I have no idea, but I assume the margarine manufacturers or the butter manufacturers on both sides of the border might have some problem. But that is part of the process of the negotiations.

Mr. McKessock: With the marketing board, it appears that they have special rights within GATT that they would allow imports to come in. Marketing boards are in place.



Mr. Stone: Yes. The GATT rules generally prohibit the use of quantitative restrictions such as we have on butter, or that is a coalition in effect. The GATT rules prohibit that, except for agricultural products in certain circumstances, and those circumstances are when a country has a domestic program which limits production of the same commodity. Therefore, we would justify our restrictions or prohibitions on imports of dairy products and eggs, as well as turkeys and chickens.

Mr. Taylor: All supply management--

Mr. Stone: That is right. They will. That is consistent with our GATT obligations because we have supply management. But having said that, just because it is consistent with GATT, does not really mean that Canada might not want to liberalize that trade if it could get something in exchange.

I am just giving this as an example. I really do not know the economics of it. If we were to exchange entry into Canada of fluid milk and butter--God help us--in exchange for free entry into the United States of fluid milk and butter, would that be a good deal or not?

Mr. McKessock: A terrible deal.

Mr. Stone: That would be terrible. All right.

Mr. Taylor: Have you got milk cows or steers?

Mr. Stone: I will take your word for it.

Mr. McKessock: I think the United States would run out of milk very quickly. With refrigerated tanker trucks now, there is no problem.

Mr. Chairman: Is that common with a lot of agricultural products? We think the United States would feed us?

Mr. McKessock: I feel they would. They could feed us after supper without any trouble. A little extra moonlighting in the United States would soon supply Ontario.

Mr. McGuigan: It seems quite ridiculous, but I remember one authority saying if the Mississippi Valley was farmed to its full capacity--you must remember it is one of the most productive places in the world--it would feed the world.

Mr. Stone: Yet, having said all that, there are places where Canadian agriculture is perfectly competitive. Hogs are one area at the present time. I suppose it goes up and down.

Mr. Mackenzie: Is content legislation acceptable within the framework of GATT?

Mr. Stone: No, generally not, because it amounts to a quantity restriction or a restriction on goods that you put a condition on. I had better go back a bit. It just depends on what

you mean by "content." If you require the Canadian manufacturer to produce in Canada with a stated amount of Canadian content, that would be contrary to GATT.

Mr. Mackenzie: The auto pact would be one under free trade arrangement.

3:00 p.m.

Mr. Stone: The auto pact has never been challenged in GATT. Whether it would stand up, I do not know. The Americans challenged the so-called performance requirements under the national energy program. That went to a GATT panel and the panel made a determination that to require Canadian firms to achieve a certain degree of content was contrary to the GATT rules.

On the other hand, they did not find that certain other elements of the national energy program were inconsistent with the GATT rules, partly on the grounds there were no GATT rules--not that they were in line with the GATT rules, but that there were no rules.

Mr. Chairman: Who makes up a GATT panel?

Mr. Stone: The panel is appointed by the director-general of the GATT in consultation with the parties concerned. There are usually between three and five members on a panel. Usually, these members are trade policy people from neutral countries that have no stake in the issue.

Mr. Chairman: I suppose the only sanction is expulsion from the agreement.

Mr. Stone: It is not even that.

Mr. Chairman: Has that never happened?

Mr. Stone: No. It has happened that countries have blocked or even disregarded the findings of panels, at least for periods. For example, a GATT panel found the American system of tax refunds for exports--what was it called? I will think of it in a minute--was contrary to the GATT. The Americans ignored it for a while. Then they changed their system to bring it into accordance with the GATT rules. It is not necessarily a better system, but at least it can be argued that it is consistent with the GATT rules. However, it took 10 years to do it.

Mr. Taylor: You can argue it is consistent with the letter as opposed to the spirit of the agreement.

Mr. McGuigan: There are the duty-free liquor stores on the border. It is their own system of ignoring tax.

Mr. Stone: The GATT is a little fuzzy about the operation of government monopolies. The Canadian Wheat Board is a government monopoly. There is an article called "state trading" in the GATT. It says countries are not prohibited from carrying on

operations of that kind, but if they do they have to do it with all other countries on a nondiscriminatory basis.

The GATT does not prohibit operations such as the Liquor Control Board of Ontario or the other provincial liquor commissions, other than to say two things. The same treatment should be accorded to all countries that export liquor or wine and the most-favoured-nation rule would apply. Once the foreign product has paid all the customs duties and everything else and is within the country, it should be accorded the same treatment as domestic products. There have been complaints by the Europeans and the Americans that the differential markup pricing systems which discriminate against imported products are not consistent with the GATT.

If I am not mistaken, the Europeans have now taken Canada to the GATT court about the operation of the liquor commissions in regard to certain aspects, that their products are not getting the same treatment as the domestic products once they are in the country. I believe that is being looked at by one of the panels we are talking about.

Beyond that, it is fair to say that if we get into a negotiation with the US of a bilateral kind and the Americans come with their list of problems they have in trade with Canada, they would put fairly high on the list the operation of provincial liquor commissions because the California wine people have a pretty high interest in that. What the outcome would be, I do not know. Some of their states have liquor commissions that operate in much the same way.

Mr. McFadden: The potential attack on the beer industry may be even more telling than the wine, in the number of employees who are tied up and the way government regulation has hamstrung the industry from becoming efficient. We are in a situation here where the markup on beer in a lot of provinces is some 50 per cent and the typical markup in a number of provinces on import is 120 per cent.

The Americans are still dumping in their cans one way or another, so they are competitive in price, if not undercutting Canadian product. One reason for that is the fact that every province requires local manufacture in order to get into the distribution system provincially and be treated as domestic.

One of the problems in the liquor business is there is such a plethora of internal regulations holding down the industry or cutting it off and regulating it. In fairness to that industry, you would have to allow a lengthy period. One problem you start getting into with the GATT or with a bilateral arrangement is that the industry involved requires a fairly lengthy time. In the beer area the Americans have not attacked our markups. The discount brands in the states are now starting to, but the large breweries have not. With wine they have been a little more aggressive.

With regard to the GATT itself and the challenge in Europe, if the GATT arrangement, for example, found our distribution system of wines and beers somehow discriminatory, does that permit



any country under the GATT rules to retaliate against an offending country in some way that would be contrary to the GATT rules, or is it strictly declaratory and does a country that finds itself aggrieved sit there in frustration waiting for someone to do something? Is there something under the rules that will allow them on a short-term or long-term basis to retaliate, even if it is beyond what they have normally been allowed to do under the GATT?

Mr. Stone: Let us assume, even without a GATT panel, that the Europeans say, "We think what is being done by the provincial liquor commissions is contrary to the GATT and we are going to retaliate against you," and they take some retaliatory measures. Theoretically, Canada could respond by taking retaliatory measures against the Europeans and it could go on.

The GATT would probably step in, or at least Canada and the Europeans would step in, as the Europeans have done. They said, "Let us have a panel look at this and get an independent judgement about whether the Canadian system is in accordance with the GATT rules." Fair enough so far.

3:10 p.m.

If the panel concludes that the Canadian system is consistent with the act, the Europeans have no rights, morally or legally, to retaliate. They have been through that and they have no grounds for retaliation. They might do so, but if they did, it would be an infringement of our trade agreement. If the panel found that the provincial liquor commissions' operations were not in accordance with Canada's GATT obligations, then the Europeans have a pretty solid base for asking that the system be changed--which the federal government may not be able to do because these are provincial operations--or they may ask for compensation by the reduction of some Canadian tariff of interest to Europeans. In other words, they would strike a deal.

If that is not possible, and usually these things go in that order, the Europeans would say, "We are going to retaliate by increasing duties against Canadian whiskey." Canada can appeal that and, in turn, ask for a panel to decide whether the European retaliation was reasonable or legally permissible. Then again, the panel may find the Europeans were within their rights or not. The system goes on like this until some equilibrium is struck.

The objective of all this is a pretty sound one, to try to avoid the process of retaliation, counter-retaliation, ratchetting up the barriers to trade instead of resolving them in ways that do not add to barriers of world trade. The concept is sensible and generally works pretty well.

Mr. McFadden: Let us stick to the liquor business for a minute. Would retaliation be permitted in an unrelated area. For example, could they say, "We do not like what you have done to our wine, so we are going to raise duties on shoes," or would it have to be in a liquor-related field?

Mr. Stone: No, it can be in other fields. In this connection, the Europeans are always trotting out maple syrup

because they think somehow that maple syrup is a very sensitive export by Canada and if they increase their duties on maple syrup, which are already sky high, that is a--

Mr. McFadden: We are threatening our wine industry against our maple syrup.

Mr. Stone: The answer, in short, is that it does not have to be in related fields.

Mr. Taylor: There is a maple syrup liqueur.

Mr. Stone: They are very clever, you know. Let us say they have a grudge against the Ontario liquor commission but not necessarily against the Nova Scotia or the British Columbia liquor commissions. If they choose to retaliate, they would undoubtedly do so by raising duties on products that are made in Ontario, like maple syrup, rather than on something made in BC. We would play the same game. If we have a grudge against something the European Community has done to defend an Italian interest, we would threaten to retaliate on an export from Italy, such as olive oil or something else Italian, rather than something Danish.

Mr. Taylor: Has there been a fairly large industry grow up as a result of this?

Mr. McKessock: Committees?

Mr. Taylor: I am thinking this creates a new industry.

Mr. Stone: Not so much in the GATT context, although there is an unending series of committee meetings, that is true. The industry has grown in trade policy lawyers in Washington who assist or block petitions by industries for protection or otherwise under US law.

Mr. Cordiano: You see, David, you cannot go wrong.

Mr. McFadden: That is right.

Mr. Stone: The same process is happening on a much lower level in Canada. The trade policy lawyers are assured of a very interesting and lucrative future if they keep making the system more legalistic.

Mr. Ferraro: I do not know whether they are two questions or one derives from the other. You are obviously a proponent of strengthening GATT, or even going beyond that with an overlapping agreement or something, similar to what Dr. Clarkson was saying yesterday.

In the light of the fact the US is looking at a \$135-billion deficit this year, and from Ontario's perspective of exporting 90 per cent of our products to the US, what is the reality of the situation as far as you see it? How much of a bargaining position does Ontario have with the US, one on one? If, as I surmise, it is not a very strong one, are you saying we will get a much better deal if we stay in the GATT?

Mr. Stone: You have asked three questions. Do I think the GATT system is sound and has it worked to our advantage? I would say yes, in two ways. It is a body of rules on trade. For a country such as Canada, especially because our major trading partner is much bigger and all that, it is safer to operate in a system of rules than a system of no rules. That also applies to our trade relations with the Japanese and Europeans. That is a bias, if you like, on my part.

The second question, though, is, what would be the objectives? Why get into an even stronger relationship with the US beyond GATT? If we keep GATT as it is, why do we want to get into something stronger? I would say they have the same objectives. On page 5 of my paper, I put it this way: from a Canadian perspective, whether we mean Ontario or other parts of Canada, our objectives would be to get better--in the sense of more open and assured--access to the American market, and lower and lower barriers to Canadian exports. I do not think anyone could argue against that. That is a good thing to do. It enlarges the market for Canadian farmers, manufacturers, processors and so on.

In exchange for that, on our side we would have to lower barriers to US exports. There is nothing new in this. We have been negotiating downward barriers to cross-border trade for 50 years. There is a large area of free trade already, but there are also many in which trade is restricted by tariffs and other barriers. We have talked about milk and dairy products. We could talk about the American restrictions on sugar, sugar products and products containing sugar. There are tariffs despite the number of reductions that have taken place. There are still many high American and Canadian tariffs.

From our perspective we should focus on getting lower barriers to the American market and, in exchange, be prepared to lower those on American exports to Canada.

Mr. McKessock: So you are saying carry on the way we have been going.

Mr. Stone: That is right. I am not talking here about what you call free trade. Some people will talk about that. Maybe it is achievable, I do not know. It probably is not. Even so, there is room for a further liberalization of cross-border trade.

Beyond that there is another objective, to get stronger control or impose more constraint or restraint on US trade policy and its operation. From our perspective, I do not see how anyone can quarrel with that. Again, in exchange for that we would have to accept further constraints on our own trade policy. You can have your views about whether it is a good thing or not. That process is not new. We started to do it in our 1930s agreement with the US, and we have been doing it in the GATT.

3:20 p.m.

Mr. Ferraro: I appreciate what you are saying, but maybe I did not make the question clear enough. I was trying to take the Ontario perspective but let us take the Canadian perspective. My



question is this--Canada versus the US--considering their state of depression vis-à-vis their deficit now and their ambitions and so forth, can we negotiate a better deal with the US bilaterally, or is it unequivocally to our benefit to negotiate that deal under the umbrella of the GATT? There would 88 other countries.

Mr. Stone: I do not know. In my paper, I say we do both. We have the prospect now--

Mr. Ferraro: You throw in something new. Some say, "Do not go for it." Some say, "Go for it," and now you are saying, "Go both."

Mr. Stone: Yes. Get what we can through the multilateral process in GATT, not only vis-à-vis the Japanese and Europeans but also get something from the Americans. Continue that GATT process to improve the trade conditions with the US. Think of going beyond that on a bilateral basis with the US, beyond what is likely to be achievable in Geneva. In practical terms, that is likely to happen.

In Ottawa, in the Department of External Affairs, there is a group preparing actively for multilateral negotiations. There is another group preparing actively for bilateral negotiations. One might hope that the co-ordination between these two groups were closer than it is, but it probably will come to that.

Mr. Chairman: You say the bilateral is--

Mr. Stone: Bilateral with the United States.

Mr. Chairman: You say bilateral is likely to happen in your scenario?

Mr. Stone: In parallel.

Mr. Chairman: A combination of both. But you are always keeping in mind that there are certain sectors where it would never happen. I think that is what you are saying.

Mr. Stone: May we take a moment on that? One can think of different outcomes. We are talking about trade liberalization here, of reducing or removing barriers. Let us say that you end up with some barriers still in place. Trade liberalization is not complete. In other cases, it happens commonly that countries will phase in reductions of their trade barriers.

For example, after the Tokyo round, Canada and the United States and most other countries had phased in tariff reductions over an eight-year or nine-year period; a certain percentage every year. Those reductions do not necessarily have to be the same for all sectors. For some products, the reductions might take place immediately, for others they would have a phase-in period of a certain length of time. For others the time period may be quite different. They do not have to be the same on both sides because the two sides may have quite different problems.

It is fair to start with the proposal that the Canadian

process of liberalization would be over a longer period of time than the American. The adjustment problems on the Canadian side would be more difficult, both in terms of sacrifices and in terms of gains. It seems to me to be a reasonable negotiating position to tell the Americans, "Whatever the outcome, we are going to take longer to implement them than you are."

Mr. Ferraro: May I ask the same question a little differently? Humour me, if you will, Mr. Stone.

Imagine the Ontario or the Canadian government said to you: "You are the number one man. We want you to deal with our trade prospects with the United States in the next 10 to 20 years." Make the assumption that you cannot have both, as you are suggesting. Would you want it on the basis of going against the United States and working out a bilateral agreement--I assume you have some agreement nationally in Canada--or would you want it on the basis of your representing Canada in the GATT?

Mr. Stone: I would say I want both.

Mr. Ferraro: Okay.

Mr. Stone: Keep the GATT and use it to get whatever we can. Beyond that, we go bilateral--we have done that. We did it in the auto pact. When we signed the automotive agreement with the United States, we did not give up the GATT, even for automobiles.

Mr. McGuigan: I have three somewhat unrelated questions. One is on retaliation. You answered a previous question by saying that sometimes they will retaliate in an unrelated field. Do not the people generally try to retaliate in the same field? For instance, a number of years ago, we cut off American cattle from coming into Canada. They immediately responded by cutting off our hogs, for a very good reason. "If you are going to make my bull bawl, I am going to make your hog squeal."

It came back to the Canadian red meat producer and caught the same fellow. You get a much more direct result from your retaliation if you can retaliate in that field rather than in another, against shoes for example. I suppose pinching a person's shoes would make him holler.

Mr. Stone: It is a matter of a decision for the other country. The other country will choose the product it can get the most leverage from. If I am not mistaken--I was not close to this--the Americans objected a while ago to certain operations of the Liquor Control Board of Ontario in the treatment of their wines from California. They talked about retaliating, or threatened. I do not think they ever did. What product did they choose?

Mr. McGuigan: Canadian whiskey.

Mr. Stone: That is right. Canadian whiskey, produced largely in Ontario, and in which the Ontario government had a pretty large interest in tax revenues.

Mr. McGuigan: We export more whiskey than we import wine.

Mr. Stone: That is right. These fellows make pretty smart calculations.

Mr. McKessock: I have a supplementary--

Mr. McGuigan: Okay. I have two more questions.

Mr. McKessock: If they retaliate by putting tariffs on another product, it is very unfair to that other product. Going back to the increased beef quotas from Europe this year. If they had not put those increased quotas on, they were going to retaliate against the maple syrup, tobacco, and honey. Yet that is very unfair to the beef producers; they had to take the brunt of that in order to stop the added tariff being put on these other products. Is there not some agreement that could be made within the GATT that they would have to, as Mr. McGuigan says, retaliate on something within that same field so it does not come down unfairly on another product?

Interjections.

Mr. McKessock: It is very unfair. It may be fair in the eyes of the government, but in the eyes of the individual producer, it is very unfair.

Mr. Mackenzie: It is a good bargaining tactic.

Mr. Stone: It has been a feature of the GATT system from the start.

Interjection.

Mr. Stone: It is used in a straight bargaining way to exert the maximum leverage.

Mr. McKessock: The problem is that sometimes the government does not care as much. It certainly does not care as much--

Mr. Taylor: The present government does not but the other one did. It was very caring.

Mr. McKessock: I find the present federal government did not care about the red meat producers--

Interjections.

Mr. McGuigan: We talk about these 300 or so bills before Congress, all of them of a protectionist nature and we sit here quivering, thinking of the full weight of those going to come upon us.

We have another line of defence, the president's veto. Look at the precarious state of the United States which is the major opponent of the other great power, Russia, and needs a few allies in this. For instance, Japan has a base in the Far East. The



president has some overriding considerations beyond those power blocs at home and he is threatening to veto these and could. Can you give us instances of when the president of the United States--and I am not thinking particularly of this president--has vetoed these types of things?

Mr. Stone: There is an interesting one coming up and that involves not a veto but whether he is going to put restrictions on imports of footwear. The United States International Trade Commission has determined imports of footwear are damaging US industry which leads to a decision by the president this month on controls on imports of footwear, which would generally damage--

Mr. McGuigan: Imported from where?

Mr. Stone: From Europe. The Italians have the biggest stake in it and the Spanish divisions.

It is not a protectionist bill in Congress. It would be perfectly in order with US trade agreement obligations for him to put on import restrictions but he may not do so because of fears and a disinclination to offend the Europeans.

A veto of the congressional measure usually--I cannot think of one. I am sure I could if I took more time and looked into it a bit. Usually the administration turns it off before it gets passed into law.

Mr. McGuigan: Put together with pressure from the president. When you get a phone call from the president, it is hard to resist.

Mr. Stone: That is right. There are cases where Congress has passed a restrictionist bill and the president has vetoed it. Usually it operates the other way around though. The Americans will plague the Congress. They will say to the Japanese, "You put on your export controls on automobiles in the United States or Congress will pass a law that will unilaterally restrict imports from Japan." That brings the Japanese into some kind of agreement with the United States rather than face a unilateral restriction by calling this--

Mr. McGuigan: Playing brinkmanship.

Mr. Stone: Yes.

Mr. McGuigan: I have another question about the auto trade agreement. I would preface it by saying that people say, "What bargaining chips do we in Canada have?" When we went into the auto trade agreement, we had a tremendous bargaining chip and that was our domestic market for automobiles which is roughly one million vehicles a year.

Even with the great success of that auto trade agreement and the finished automobiles and the parts, we are billions of dollars behind and there is a trade deficit in favour of the United States. We may have caught up a bit in the last two or three

years--and I do not have the latest figures--but over the whole length of that agreement we are several billions of dollars behind them.

Maybe it is dreaming but if Canada really wanted to take the bull by the horns we would say, "We will make a Canadian car." We could go to a European or Japanese manufacturer or we might even generate our own cars and we will--

Mr. Ferraro: Call it the Bricklin.

Interjections.

Mr. McGuigan: We would stop all cross-border movement of cars. It seems to me that we could make our own car with the technology in Canada. With a market of one million, we would not have the same number of choices. There are some 300 models in the US. I do not know how many models we get from Japanese and European makers. We have a bit of bargaining chip in a theoretical sense with a market for one million vehicles.

Mr. Stone: I cannot really answer whether we can build a Canadian car in Canada economically. If we could do it, perhaps we should have done it a long time ago. My impression about the trade balance under the auto agreement is that there have been periods when American exports have exceeded Canadian exports. My impression is that over the past few years it has been the other way around, that Canadian exports have exceeded American exports to Canada. In other words, there has been a balance of trade in Canada's favour for the past few years.

Mr. McGuigan: They thought they were giving us a bad deal years ago when they gave us the small car to manufacture, but that was just at the time small cars took off. Then they said, "You make the big cars," so we got into making them just at the time big cars paid off. We were lucky in those two instances. However, the general aim has been to give us the wrong end of the stick. The accident of trade and the fuel thing worked in our favour. I still think that if we look at the total trade from the beginning in 1965 to now, we will find we are several billion dollars behind in the auto trade deal.

Mr. Stone: Automobiles are so important to Ontario and I am not qualified--

Mr. McGuigan: I am not either.

Mr. Stone: --to comment on this. You might consider inviting someone to come to your committee who is--I do not necessarily mean someone from the producers, but someone who has an objective view on the success of the auto agreement from the Canadian point of view. There are several people around.

Mr. Chairman: You certainly hear some subjective views.

Mr. Stone: Maybe all views are subjective on this.

Mr. Chairman: The United Auto Workers want to--

Mr. Stone: It is of such importance that it would warrant--I am not qualified to have a view on the benefits or otherwise of the auto agreement.

Mr. McGuigan: It was just an idea I wanted to put on the table.

Mr. Stone: In general, if you say you can do that with automobiles, you can do it in any other sector. However, in some cases all you are doing is shooting yourself in the foot if you put a trade barrier against imports of goods that can be produced more effectively and cheaply abroad than they can be in Canada.

Mr. McGuigan: I agree in theory, but I am saying this from the point of view of a bargaining chip. When we entered the auto trade agreement, we had a big thing to give with a consumer market that takes one million vehicles a year. If we go to farm machinery, Canada's consumption of farm machinery is so small that we do not manufacture a single tractor in Canada with the exception of one made in Winnipeg. We do not have consumption of enough tractors to make it economical to make tractors here.

Mr. McKessock: It is exactly the same with the cars.

Mr. McGuigan: You could be economical with one million.

3:40 p.m.

Mr. Stone: It raises a very interesting question: What is the advantage for the United States in a bilateral trade agreement with Canada? Are they interested? I do not think that subject has been looked into all that carefully on the US side or in Canada.

My impression is that some trade policy people in the administration in Washington have been very positive about concluding some kind of a special arrangement with Canada. There is support for it in some places in Congress and within the US industry or certain agricultural sectors. In other words, there is a favourable, but not a very widespread, sentiment in the United States towards doing something special on the trade side with Canadians.

Why would this be? Two reasons are often advanced. One is that if the United States can achieve some new trade liberalization with Canada, this will lead to trade liberalization on a broader scale in the General Agreement on Tariffs and Trade and this would be to the advantage of the United States. That is one reason that is often advanced.

Another reason is the US stake in a healthy Canadian economy is very large. They have a lot of investments here. Canada is a big market, their largest market. They have a real stake in pursuing a better and more liberal trade regime with Canada.

I do not think we are at a great disadvantage in negotiating with the United States. The volume of trade is about equal. It is



a little more in Canada's advantage in the last few years. We have a trade surplus, but over a historical period the balance is about equal, which means that in absolute terms there are as many Americans who are interested in the Canadian market as there are Canadians who are interested in the American market. In relative terms, it is more important for Canada than the US, but in absolute terms, there are many Americans who are making their living by producing, selling and trading both on the exporting and importing side with Canada.

Second, this is something I had not appreciated. The question of the largest trading partner of the US came up. It is Canada. Which is the second largest trading partner of the US? It is Ontario.

Mr. Chairman: I have heard it said we would be first if we were a separate country.

Mr. Stone: Yes.

Mr. Leluk: Why do we not enjoy a much better position in our trade relations with the US when you look at the size of the market we have? You said it was about equal. We may have a slight advantage in the trade that is going on, the exports from Canada to the US as opposed to their exports to us.

Is that because we are not aggressive? Other witnesses said we do not tend to be aggressive in the way we approach trade with not just the US but with other countries. The Pacific Rim was one area specifically mentioned where there is a market we just have not pursued in the past to the degree we might. What would be the reason, as you see it?

Mr. Stone: I cannot really comment on that. I hear the same observation made that Canadian business people with a relatively protected market over the last century have tended to look inwards at their own market rather than outwards into export markets, except in resource products such as wheat, newsprint, lumber and aluminum.

Mr. Leluk: One would think we would enjoy a much larger share of that US market just because of the numbers of people who are there. We are looking at 10 times the population of Canada. The market opportunities must be greater for our exporters to the US than vice versa.

Mr. Stone: We should be doing better. We should have a trade surplus with the US. That is probably right, but it is how the market operates.

Mr. Cordiano: You suggest that if we were to negotiate a comprehensive deal with the US in bilateral trade, it would be an inducement for other countries to come to the GATT negotiations with an open mind and that would enhance the ability of both the US and Canada to widen the discussions to include other nontariff barriers. Do you believe that, or if it is a case of Canada negotiating a comprehensive bilateral trade agreement with the US, would that lessen our ability to negotiate under GATT?

Mr. Stone: That is a very good point. Supposing we do negotiate a preferential arrangement with the US, the question arises whether that would prohibit Canada from negotiating the same arrangements and giving the same advantages to the Europeans, the Japanese, the Brazilians, the Indians or whoever. The concept here is the binding of these preferences on either side. In other words, do we lock ourselves into giving preferences to the United States and no other country for the same products?

Mr. Cordiano: By the definition of the sort of agreement that has been talked about, that is what we would be doing.

Mr. Stone: No, I do not think so. The Americans under the automotive agreement accorded free entry to automobiles produced in Canada, but they did not give any undertaking that it would be on a preferential basis to Canada. They were quite free, and have been all along, to remove their duties on automobiles from the Europeans and the Japanese, had they wanted to. In other words, they gave us no assurances that duty-free entry was for only Canadians.

Mr. Cordiano: Yes, but that would not necessarily constitute a comprehensive deal because, in effect, you are breaking the treaty. If you are not giving preferential treatment, there is no bilateral trade agreement because Canadian manufacturers are competing with other countries. If they got the same kind of deal, where is the deal?

Mr. Stone: The deal is that Canadian manufacturers get duty-free or barrier-free access to the US market. The deal does not have to be that duty-free access is bound only to Canada and that the Americans are prohibited from--

Mr. Taylor: They already have a treaty with Israel. You have broken it before you sign it if you have taken that trip.

Mr. Cordiano: Is that not what we are saying? If Canada were to go into a comprehensive deal, I imagine it would be in our best interests to ensure that this deal is not broached or abrogated by dealing with other countries on the same basis. Then we are competing in a market that--

Mr. Taylor: You have wiped out your first argument in terms of precedent. The US has motivation in a bilateral agreement to set a precedent for (inaudible). Automatically you have wiped out that argument.

Mr. Cordiano: In effect, there has been a precedent.

Mr. Stone: I have not heard, and I seriously doubt, that either government would bind itself not to negotiate the same deal with other countries.

3:50 p.m.

Mr. Cordiano: I question the positive effect of entering such a deal without having the kind of assurance that we would now not have to compete with other countries on the same basis. Maybe

I am missing something.

Mr. Stone: You are looking for guaranteed preferences rather than tariff-free access.

Mr. Cordiano: We are talking about a free-trade deal. I am not looking at GATT. We are talking about free trade or enhanced trade. The whole question is secure access, securing our access to the US market.

Mr. Stone: But not necessarily on a preferential basis. We may do it on a preferential basis but the US is not bound, nor are we on our side.

Mr. Cordiano: That is another weakness in the whole concept of free trade.

Mr. Stone: We got locked into bound preferences with the British in the 1930s where we undertook not just to give the British tariff-free entry for, let us say, their machines into the Canadian market; we also guaranteed that we would not give the same advantage to other countries. It took us 20 years to unlock ourselves from those bound preferences.

Mr. Cordiano: I am not suggesting we do that. I am saying that in a sense the whole concept of free trade is weakened. On the other hand, I am not so sure it is a good idea to go into that bound preferential treatment.

Mr. Stone: I am sure there would be many Canadian manufacturers or exporters who would like, not just tariff-free entry to the US market, but preferences against duty-free entry from other countries.

Mr. Ferraro: Educate me on that.

Mr. Stone: In exchange for that, if it is wise, we would have to give the Americans the same right.

Mr. Cordiano: That is another element of uncertainty in our free-trade deal. That is why I am raising the spectre of that. In your opinion, in the 1986 round of GATT, what are the prospects for succeeding in a relatively positive way with regard to securing some of those nontariff barriers, removing some of those and reducing the tariff barriers that are already in place with other countries in GATT?

Mr. Stone: That is a matter of speculation. I would say that there are two areas where the movement towards a more liberal regime in the GATT framework has been going forward. One is on government procurement. During the Tokyo round, they adopted a code on government procurement that obliged central governments to open up their procurement to international competition.

Many areas were exempted from the process: communications, telephone and transportation equipment and that kind of thing. The Canadian Broadcasting Corporation, Canadian National or Air Canada are not obligated to hold those purchases open to international



competition. Nor are the Americans or Japanese, and so on.

Over the last couple of years there have been efforts in GATT to extend the system, to make it more liberal and get broader commitments on government procurement. That is going forward in a positive way.

Another area is in agricultural trade, where the great complaints have been about the Europeans and their export subsidies on a number of agricultural products, their import controls and their system of variable levies and all the other elements of the common agricultural policy. There is evidence of some movement there because the Europeans evidently are finding their system has become impossibly expensive in terms of subsidies.

One could make the same argument for Canada and the US that these agricultural support programs are very expensive operations and that the governments collectively are generally looking for ways to control the system to impose international constraints on their farm policies. There seems to be some movement there. There are people who say the turnaround of European support for another GATT round is partly, even largely, due to what is developing there, and the only way they can control their own agricultural support programs is to get into an international arrangement.

Mr. McKessock: We cannot even control that within the provinces in Canada.

Mr. Stone: That is right. May I make another observation here? Linked to that, and I was reminded of it, is the provincial interest. I am not just talking of Ontario but other provinces that have a provincial interest in not just GATT negotiations but the bilateral Canada-US negotiations. Their interest will inevitably be very great.

There have been arrangements for regular consultations between the federal trade minister and provincial trade ministers that take place on a regular basis. I would have thought one of the things the committee may want to examine is the continuing arrangements over the next few years for co-operation with Ottawa in the negotiating process, not just putting provincial views to Ottawa but for having an active participation.

There are people who say Ontario government representatives should be at the negotiating table. I do not know whether that would ever be saleable because every province would say, "We want to be at the negotiating table," and every American state would say, "We want to be at the negotiating table." Short of actually being at the table, the provinces would want to make sure they were closely involved.

Mr. Taylor: I think Ontario has been there.

Mr. Stone: I think that is right.

Mr. Mackenzie: Mr. Chairman, I suggest you look at the list of names you have because what started out as a supplementary by Mr. Cordiano 20 minutes ago has really cut off people who have

questions. I do not want to tighten this up but we may have to go back to speaking through the chair.

The Vice-Chairman: You are quite correct. I will turn now to Mr. Morin-Strom.

Mr. Morin-Strom: Thanks for those comments, Bob. I think the chair will have to take a little stronger action in terms of controlling the questioning here. I was second on the list when Dave Cooke left the room. He called the first one on the list and at least eight or nine supplementary questions have come up following that, including five or six from one speaker alone.

I would like to question your strong contention that trade liberalization is to the advantage of Canada. You make the point in your article, and in one of the answers to Mr. McGuigan--I think it was the second question--that in your opinion it is obvious that trade liberalization is to Canada's benefit basically because it would give us a bigger market and opportunity for further exports to the US.

It seems to me that is only one side of the equation. Everyone recognizes you want to encourage exports but, at the same time, the risk is encouraging imports. It seems to me you are passing over the other side of the equation as to what the balance is going to be. On the export side, you are going to have benefits and you are going to have costs and risks in encouraging American penetration of a Canadian market.

4 p.m.

Many economists believe the net is going to be positive, at least from a theoretical perspective, but there are social costs to these tradeoffs. These costs may not be so much to companies and industry in balance may be positive, but there are real social costs to families and individuals who lose their jobs.

There are also social costs to governments that have to support communities that lose industries and communities that have to shut down. There can be the cost of having to develop infrastructure for new communities or growing communities in the areas where we are strong, while infrastructure we put in place in other locations may become a total waste and essentially a cost to our society.

I am not convinced the net of the social costs and the economic costs will be positive. There is a serious question about whether the balance is positive or negative.

There is also the consideration of vulnerability of our political independence and control of our own destiny. We are already seeing 40 per cent of our manufactured products going to the US. We are very dependent on that one economy. I am not sure we want to encourage greater dependence on one marketplace such as the US.

Why do you feel the balance is going to be favourable to Canada in a movement to trade liberalization?

Mr. Stone: I prefaced my remarks this afternoon by disclaiming the ability to enter into a debate on the economics of greater dependence. The economists you have before you can discuss the question of costs and benefits better than I can. I just take from the textbook law of comparative advantages that it is a good thing for countries to develop competitive industries and open up their markets.

My bias is that free trade is a good thing on the whole, but it is not founded on anything more than a general economic concept of the law of comparative advantages. I do not take the view that imports are bad and exports are good. Imports are good too. Canada depends on a host of imported products. The economy would grind to a halt if we were to shut off imports into Canada. The reduction of barriers to imports is also a good thing, not a bad thing.

There are social costs, of course. Not everybody benefits, not every community and not every worker. This brings up the question of what we call adjustment programs. The community at large should be prepared to assist the people who may lose their jobs or communities that may lose industries. Unfortunately, and I am not competent to comment on this, I do not know whether our past record of assistance through government programs has been all that successful. This is a question the committee may want to look into with someone better acquainted with that process of adjustment than I am.

I agree with you that individual workers or communities should not be expected to bear the cost of adjusting to trade liberalization. It is unfair, although the community at large will benefit. There are overall benefits which should be shared with, or directed towards, people who are going to lose.

As for giving up our sovereignty or independence, it seems to me that any international agreement involves surrendering freedom of action. For example, we have an agreement with the Americans not to pollute the Great Lakes. That stands in the way of our freedom to pollute the Great Lakes on our side. There is no question about it, we made that deal but we did so in return for a commitment on their part not to pollute the Great Lakes and we thought the deal was good.

One can debate whether the Americans have lived up to their side or even whether we have lived up to ours. That is the essence of an international agreement and I do not see it as infringing on our sovereignty. I see it as a self-imposed restraint on our part in order to obtain a restraint on the part of another country. When we live next door to a country that is 10 times larger than we are, it seems to me that it is to our advantage to try and restrain the Americans from unilateral exercise of power on their part by agreeing to some corresponding exercise of restraint on ours.

That is the whole movement pursuing this kind of system of international co-operation within the United Nations framework since the end of the war, whether successfully or otherwise. I am not sure that answers your question adequately, but I do not have any further thoughts on the subject.



Mr. Morin-Strom: I have a couple of points, one on comparative advantage. It seems to me that Canada already pursues more strongly those industries in which it does have a comparative advantage. The vast majority of exports to the United States are already tariff-free or at least very low. I am not sure there are great gains to be made in that particular area.

There is also the issue of trade liberalization. You have worked under the General Agreement on Tariffs and Trade. I am not convinced that GATT has been beneficial to western economies and the Canadian economy in particular. There is evidence that over the last 15 years unemployment rates have escalated considerably within the western economies at the same time that trade liberalization has been undertaken. I really question whether GATT has been a net benefit.

Are you aware of any evidence that shows what the benefits of the GATT arrangements have been for Canada or the western world generally?

Mr. Stone: I think that is a question which should be addressed. If you want an economic answer, I cannot give one. I would have thought, though, that for this country, where 25 per cent of our gross national product is generated by our exports, it is of crucial importance.

4:10 p.m.

The Vice-Chairman: It is 30 per cent.

Mr. Stone: Thirty per cent or whatever is roughly one job in three. It is of crucial importance that those export markets be maintained and even enlarged.

Mr. Morin-Strom: Presumably, 30 per cent of our GNP also goes to providing jobs in other countries rather than here. There are two sides to that equation. Exports essentially have to match imports because dollars coming into the country have to match dollars going out.

Mr. McFadden: There is an imbalance.

Mr. Stone: Excuse me, sir, but I do not know where your line of reasoning would take us in the end if it says we should put barriers around Canada.

Mr. Morin-Strom: I am not saying that. I am saying it is not clear whether they should be opened further, should be closed or are fine where they are now.

Mr. Stone: I do not know. That question is one to debate with the economists. I take it as an assumption that further trade liberalization makes us all richer, not poorer.

Mr. Mackenzie: I guess you can get all kinds of comments one way or another. I was reading a comment by an American economist, Robert Reich, who said recently: "Free trade is mostly

a side show. The central issues in international trade policy now concern the relative speed at which national economies are evolving to a higher value-added production."

What he seems to be saying, and what I see even in the protectionist mood in the United States, is that most countries are now looking out more than they have done for a while to protect their own national self-interest and enhance their own capabilities. It seems to me that comes at a time when Canada is looking at taking a giant leap of faith in a new direction in terms of opening up our trade; our partner is exactly 10 times our size.

I know you have said you do not want to get into the economics of it, but without becoming totally protectionist, should there not be a place in our thinking to say there is an interest in self-sufficiency for our country and there should be some caution about the whole question of what we are going to give up in the way of an ability to maintain certain industries or produce or what have you?

Is a fair trade option and a self-sufficiency option not every damn bit as valid as the debate that is going on over free trade?

Mr. Stone: It is a point of view taken by a lot of people. I was at an agricultural conference at Waterloo a month ago and the spokesman for the Canadian Dairy Commission made exactly that same point. He said: "Our objective is to keep the Canadian market for Canadian dairy producers. We do not care about exports, except for surplus skim milk powder and we do not want any imports of dairy products. As long as we have the Canadian market, that is enough for us."

Mr. Taylor: That is supply management.

Mr. Stone: I do not know. If the dairy people can say that, so can everyone else.

Mr. Taylor: Then you have supply management across the whole economy.

Mr. Mackenzie: We have been talking to a large extent with a pretty broad brush, except when we get into sector trade or what we can do with GATT on a temporary basis. I am not sure it is that clear.

There is a real national interest in a policy of self-sufficiency and I wonder why at the moment when we seem most to be on the road to a pretty considerable change in accepting at face value a neighbour right across the border that is 10 times our size.

Mr. Stone: May I comment on that? With respect, I think the point of view I have taken in the paper is that to pursue a policy of seeking greater access to other markets, opening up our own market on the one hand, and seeking stricter trade rules on the other hand, creating international institutions to manage the

system, is something we have been doing for the last half century. I do not see any change in that.

I would say we were proceeding on the same line. We seem to be proceeding further on that line which is a question one can debate; whether that is a sensible thing to do. I do not see any great leap forward in conceptual terms with the process. I would be cautious of concepts that say we are aiming for absolutely free trade. It seems to me we are aiming at fairly consistent Canadian objectives of opening up the world trade system, a more liberal trade system, and imposing or adhering to or strengthening the rule of law.

Mr. McKessock: You mentioned that the dairy farmers were quite happy selling within Canada.

Mr. Stone: That is what he said.

Mr. McKessock: That is true and there is a reason for that. It is the best-off sector in agriculture in Canada today. There are many sectors of agriculture in dire straits. You do not stay in dire straits too long without losing that industry or parts of it.

You mentioned earlier that the hog industry could compete. That is questionable, as well. Thirty per cent of our hog production is exported to the United States--which seems good when you look at it from the standpoint of 30 per cent of our production in other areas going to the United States--and that creates jobs, but that 30 per cent is currently being shipped at a loss. How long can you ship 30 per cent of your production at a loss and maintain your industry? I just throw that out. I have mixed feelings about our exports, unless we are making a profit.

Mr. Stone: I agree with you.

The Vice-Chairman: I would like to get into this one, if Fred will allow me.

Mr. Taylor: Carry on from yesterday.

Mr. McFadden: Direct it through the chair.

The Vice-Chairman: I know I am supposed to come and sit down there.

The hog industry is working at a loss because of the countervailing duty, but there is a point I wanted to bring out.

I said earlier that American agriculture could swamp us because of the productivity of the Mississippi Valley. There are contradictions, such as us sending so many potatoes to the New England states from the Maritime provinces. From Ontario we send hogs through to the midwest--to Iowa, for goodness sakes. The hogs we send them, which is 30 per cent of our production, are only 1.6 per cent of their consumption.

The reason for it is that Canada, and Ontario, have the best



agricultural food grading laws in the world. We send those hogs there because our hogs are better graded and have better standards. We send the potatoes from the Maritimes to the New England states because the state of Maine has no grading regulations whatsoever. They can put any potatoes on the market they want to, whereas our potatoes, as bad as people think they are, are still of higher grades.

There are reasons we can go counter to that. One reason we are able to maintain those high grades is because of our marketing boards. If you do away with the marketing board and you do away with the climate, you also do away with the reasons we are more successful. I thought I would throw that in.

Who has the next question?

4:20 p.m.

Mr. McFadden: I am concerned, Mr. Stone. You have had quite a bit of experience worldwide. From a strategic position, as much as anything else, the world trading system seems to be gradually developing into fairly large blocs. The Soviet Union and the eastern bloc allies are one large trading unit. The European Community, which is steadily expanding, constitutes another sizeable one. The United States, on its own, is a very sizeable unit. Australia and New Zealand have created a smallish trading bloc that is the size of Canada itself. There have been attempts in the Pacific Rim to create some trading arrangements, and some have been developed in South America, although I do not think with a great deal of success.

At present, Canada is a member of GATT. We have some bilateral arrangements with the United States but you would not really describe us as part of any trading bloc, per se. We are very much an independent player. Do you believe, strategically, this is a tenable position in the long run, notwithstanding any agreements we can make under GATT, or do you think it is an advantage for us to remain an independent player under GATT?

In the long run, should we be part of a larger unit vis-à-vis the United States, strategically, or is that not really a requirement? Would it perhaps be better for us to play the United States against the Pacific Rim or maybe even develop a special relationship with the Pacific Rim as opposed to the United States? We seem to be in a potentially increasingly vulnerable position. I do not know what direction we could take on that.

Mr. Stone: That debate has been going on. Very often you hear that Canada is the only country in the world that does not belong to a trading bloc of more than 100 million people. This is given as a reason why we should get into some kind of free trade or customs union with the United States. I have never been impressed with that line of reasoning. I do not think, in itself, that is a reason for entering into a special trade deal with the United States.

The blocs have a meaning or importance to the extent they are really preferential areas. As their trade barriers come down,

the trade bloc concept or preferential element is correspondingly less. It seems to me if trade blocs such as the European Community are a bad thing for Canada, then one of our objectives should be to get European barriers down so the degree of preference against our exports becomes less.

My concept is it is in our interest to gain better access to the United States market, perhaps reduce our own import barriers and keep strengthening the GATT system and, at the same time, get a better handle on some American trade policy and its operation.

One way of doing that, and I mention it in the paper, would be to consider some kind of new institutional arrangement with the United States in the form of an international trade commission, like the International Joint Commission, to supervise and deal with some of the bilateral issues on the trade side, as we do with those on the boundary waters.

Schemes of that kind have been advanced by Donald Macdonald and Senator Mitchell of Maine. This is something we should consider in the context of any new joint institutional arrangement with the Americans. Maybe that is not what you were discussing but I thought I would throw it in.

Mr. McFadden: I am trying to figure this out. You are essentially advocating a continuation of what seems to have been the thread of our policies as an independent player since the Second World War dealing with all the various blocs as well as various international arrangements. You also said if the trend keeps up and there is a general reduction in tariff barriers the value of the blocs is going to drop off.

Mr. Mackenzie: The last suggestion you made strikes me as having some merit. As my colleague just said, there is more of a balanced representation in the International Joint Commission. It might be the mechanism we should take a look at when we deal with the whole issue of trade on a fairer basis, as well as the whole question of removal or lowering of tariffs and what have you. There is something to think about in that suggestion.

Mr. Stone: Many people have argued the IJC has had special advantages for Canada in balancing an unbalanced relationship. You have three commissioners from the two sides and a system of water-quality boards that includes the provinces.

Here is another element in institutional arrangement that perhaps your committee might like to think about. It could be one way of creating a provincial participation in the whole system if you followed the model like the IJC.

Mr. Mackenzie: That is one mechanism where we could take a better look. Maybe a fairer argument could be given to the obvious suggestion of the social costs in the major trade routes which is what I think is going to have more to do with killing any quick liberalization of trade than anything else. If you do not get a handle on it then obviously there are problems with respect to whether we are doing the best for most of the people.

My colleague said earlier it does not make a hell of a lot of sense to end up with 110,000 new jobs in the process of losing 100,000 jobs and then have 10 years of problems with the deficit. It is not a smooth enough transition into jobs.

The arguments as to what would be necessary, even what might be in the national interest, could probably be discussed more thoroughly in such a committee or commission. At least there is something to look at.

The Vice-Chairman: Mr. Stone, could I just enter that argument? I have no objection to using the IJC as a model but would it not be fair to say there are 28 million people on Lake Erie drinking water, so there are compelling reasons for the Americans to want to make the thing work whereas they might not see the same compelling reasons to make a trade agreement work.

There is also water power and shipping. We own 50 per cent--

Mr. Mackenzie: I agree with you. There are other problems but at least I can see some merits in it if it could be done.

4:30 p.m.

Mr. Stone: I have a fairly radical suggestion, not here, but in my concept of a commission which is that we go farther and make an arrangement where the American or Canadian use of countervailing duties or anti-dumping duties or emergency restrictions under section 201 as it affects cross-border trade, could only be used if you had an international joint commission that looked into the situation and made some recommendations in support of that. You do not leave it just to the International Trade Commission in the United States or just to our special Canadian import tribunal to make determinations of whether injury has taken place or not. You get a view from a joint body.

This would be a fairly radical suggestion and I am not sure that the two governments would like to see that.

The Vice-Chairman: You would have to weigh the balance of subsidies on either side.

Mr. Stone: That is right. They would not look just at whether the Canadian hog producers were being subsidized; they would also have to look at whether the American hog producers were being subsidized.

Mr. McKessock: There are 101 ways it could be done.

Mr. Stone: That is right, and the same with fish.

The Vice-Chairman: Every time you mail a letter, you are being subsidized.

Mr. Stone: The tax system, I guess, would be taken into account in determining whether a particular piece of trade is taking place on an unfair basis or not.



The Vice-Chairman: Are there further questions?

Mr. Stone, thank you very much for participating, especially since we have made it such an informal type of discussion.

Mr. Stone: As I said earlier, I appreciate very much the opportunity to come here. I hope I have not exhausted your patience. My views are my own and I am not sure I reflect the views of bureaucracies in Ottawa or even my own research institute.

The Vice-Chairman: I think you can conclude from the participation of the members here that they have been very interested in your remarks.

Is there any other business before we adjourn?

Mr. Taylor: I assume the matter the real chairman raised, with respect, will be dealt with on Wednesday.

The Vice-Chairman: I think he gave that assurance. We meet at 10 a.m. tomorrow to hear from the Ontario Federation of Labour and Professor Mel Watkins from the University of Toronto.

The committee adjourned at 4:34 p.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, JULY 31, 1985

Morning sitting



SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)  
VICE-CHAIRMAN: McGuigan, J. F. (Kent-Elgin L)  
Bennett, C. F. (Ottawa South PC)  
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Knight, D. S. (Halton-Burlington L)  
Mackenzie, R. W. (Hamilton East NDP)  
McFadden, D. J. (Eglinton PC)  
Morin-Strom, K. (Sault Ste. Marie NDP)  
Stephenson, B. M. (York Mills PC)  
Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:

Cureatz, S. L. (Durham East PC) for Miss Stephenson  
Leluk, N. G. (York West PC) for Mr. Bennett

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Ontario Federation of Labour:

Eleen, J., Director of Research  
Holder, D., Vice-President; Ontario Director, Canadian Paperworkers  
Union  
Pilkey, C., President  
Surich, J., Resource Co-ordinator



LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, July 31, 1985

The committee met at 10:09 a.m. in room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Before we start today, I have a message from the people at Hansard. We have admonished witnesses from time to time, but they are asking members of this committee to speak up, lean forward and speak into the microphones. While we are engaging in great conversations, they are not picking up all our dulcet tones. Try to remember that.

Mr. Taylor: We also remember, when in doubt, mumble. There is a lot of doubt on this.

Mr. Chairman: That may be why we are doing it. We have not made up our minds.

Mr. McFadden: Have you been able to determine who in particular cannot be picked up, or is the problem that they cannot pick up who it is?

Mr. Chairman: They would not give me a name, being political types themselves, I suppose. I was wondering if Mr. McGuigan's name was mentioned.

Mr. McGuigan: I am one of the worst. One is sitting here and it is so comfortable in these chairs. It is an informal atmosphere. I resent the fact one has to sit up and speak to a person with one's face in the microphone. I wish there were some other arrangement. We will try to do it, but I think it is a poor arrangement when the microphone is that far away from you.

Mr. Knight: I hope there is no particular message in the fact that our staff is indicating we are taking a laid-back approach to a serious matter.

Mr. Pilkey: The first person who accuses me of not being able to hear me will have trouble.

Mr. Ferraro: Pardon me?

Mr. Taylor: You mean they have hearing trouble.

Mr. Pilkey: They have problems.

Mr. Chairman: My first awareness of Clifford Pilkey in person was one day four or five years ago when I was walking towards my law office on Duke Street in Kitchener and I heard this booming sound coming from a street corner about noon hour. I

thought it was an evangelist of some sort. As I got closer and closer, indeed it was our guest today, the president of the Ontario Federation of Labour, Mr. Pilkey.

On his right as we look at him is Jo Surich, his research co-ordinator; on his right is John Eleen, the director of research, and on his left is a gentlemen I just met. I am sorry, I--

#### ONTARIO FEDERATION OF LABOUR

Mr. Pilkey: He is Donald Holder, Ontario director of the Canadian Paperworkers Union and vice-president of the Ontario Federation of Labour.

Mr. Chairman: We are used to interrupting. If that is your style, that is fine. If it is not, if you want to make a presentation first--

Mr. Pilkey: We would like to make a short presentation. As I understand it, the short one has been distributed as well as the other one. I would hope everybody has a copy of it.

First, let me thank you and the committee for giving us the opportunity of making a presentation here this morning. We happen to believe the whole question of bilateral free trade is probably one of the most important policy matters we will have the opportunity to discuss in the next short while.

Second, let me also congratulate the government for putting this select committee together and giving people the opportunity to voice their views in this kind of a forum on the whole question of free trade. That is very important and they are to be congratulated.

As the representative of 800,000 working people and their families in Ontario, the Ontario Federation of Labour strongly opposes efforts to enter into a bilateral free trade agreement with the United States. Such negotiations involve partners of such grossly unequal sizes that the outcome will almost inevitably benefit the larger party--the US.

The Ontario manufacturing economy is structurally immature in the sense that it is heavily foreign-owned and dominated by branch plants of large, usually American-based, multinationals. Where the early development of the economy was based on the extensive export of raw materials or staples, high tariffs encouraged US producers to locate here in order to leap the tariff walls. In large part, the Canadian and Ontario economies have never been able to escape the staple mould.

We intend to export raw and semi-finished materials while importing manufactured goods.

Mr. McFadden: Excuse me, do you mean we intend or we tend?

Mr. Pilkey: We tend.

Mr. McFadden: I was not sure that was a goal you were establishing for the Ontario economy.

Mr. Pilkey: With the possible exception of the automotive industry and a number of other isolated instances, this tends to be the case. Even in the automotive sector, we tend to be assemblers of vehicles while being significant importers of parts for those vehicles. Producer goods, like machinery and processes, are largely imported.

The effect of all these tendencies is to create an economy which is unlike that of the more mature industrial and post-industrial societies in western Europe and Japan. Our spending on research and development is extremely low, at least partly because of the propensity of branch plants to use the research and development products of the parent firm.

Free trade with the United States would have a number of negative effects on Canada. First, there would be a major dislocation of the labour market. Second, some industries, including machinery and some labour-intensive ones, would simply die. Third, there would be a natural tendency of branch plants to shut down in Canada and simply to supply our market with unused capacity in the United States.

Fourth, there would be a downward pressure on Canadian manufacturing wages, benefits and working conditions as employers seek to lower their wage bills to match those on the American side. Fifth, Canada might be forced to change public policy in areas such as taxation and benefits such as medicare, since these might be seen as giving Canadian producers an unfair advantage with respect to their American competitors. In short, our system of social services, crown lands and so on might be interpreted as a nontariff barrier. Sixth, we believe bilateral free trade might have the effect of seriously undermining Canadian sovereignty.

Much of the work economists have done to model the potential impact of free trade with the United States on Canada should be doubted. Most models show a significant increase in Canadian wealth and income, but they do so on the basis of data that are suspect. Relatively little is known about the nature of trade in services. Virtually nothing is known about the kinds of decisions corporations might make when confronted with a situation in which the branch plant is no longer needed in Canada.

All these models depend on pricing data which cannot fully explain the nature of pricing behaviour in Canada. Is it simply a function of the world price combined with the cost of the tariff and nontariff barriers? Are Canadian prices determined by monopolistic behaviour? Are Canadian prices determined by the costs associated with production here? Or are many prices determined by the practices corporations use to price transfers between various branches of the same firm--intracorporate pricing?



If we are to attach real credibility to the models that show significant material benefits to Canada, we will have to answer these questions. If material advantages are said to accrue at least partly from the fact that consumers might pay lower prices under a free trade arrangement, then we need to build data bases which are much more a reflection of the real world than appear now to be the case.

Perhaps the most sophisticated of the models that have been developed are those of Cox and Harris. These show that there will be declines in employment in most sectors of the economy and that the major output gains will be among the primary producers. By these models, free trade would accelerate the process of turning Canada fully into an exporter of staple products.

In addition, Cox and Harris estimate that seven per cent of the labour force would be affected by the move to free trade. We maintain that they seriously underestimate the proportion affected and, in addition, maintain that the group directly affected must be added to the large proportion of the labour force already out of work.

Without question, the effect of free trade would be to throw a large number of people out of work with only the vague promise that the adjustment processes which follow will ever allow many of them to find work again. In the process many workers will find themselves with skills that are useless in the new environment; communities will find themselves without any reason for being where they depend on any of the labour-intensive industries; and governments will find themselves with huge bills for the processes of social adjustment.

The proponents of free trade base their arguments on a calculus which is inherently weak and at least partly false and they wish to enter into negotiations with a partner 10 times as large. They do so in the expectation that Canada as a whole will be materially better off and also with the expectation that the possible millions of displaced workers will simply shift around to take advantage of the new employment opportunities. No government which takes its responsibility to people seriously would venture on to such a path on the basis of a dubious analysis or blind faith.

The government of Ontario should strongly oppose efforts by the federal government to lead us down this path.

Mr. Chairman: Thank you. Any questions?

Mr. Cureatz: I am very curious. On page 3, your second paragraph, in my experience you are being kind when you say, "Virtually nothing is known about the kinds of decisions corporations might make when confronted with the situation in which the branch plant is no longer needed in Canada."

10:20 a.m.

I can reflect back to minority government days in 1977 to 1981 when we had the committee on employee adjustments and plant

closures. I can think of a couple of automobile manufacturing plants in southwestern Ontario where it seemed in the interests of the American corporation that the Canadian branch plants were no longer needed. I thought then it was a very callous, cold-blooded approach to shut down the plants without what I would feel comfortable with as any kind of relationship to good corporate responsibility.

Although I am only substituting on this committee, I recall the witnesses over this week and the concern about what might take place with respect to the social impact and social policies of our province with regard to the results of American corporations, through their decisions, making adjustments to some of the aspects you have already indicated, the Ontario health insurance plan, other medical coverage, etc.

Only knowing you a bit, I am surprised you are so kind, saying virtually nothing is known. From that experience I had on the other committee, I think we have been shown it appears first things come first with American corporations. They are not too worried about what will happen. If it is in their best interests, if they can flog their products by having their main plant in the United States, that is what they will do. I do not think they will be too concerned about shutting down a branch plant in Canada. I have had my case of good corporate responsibility in at least that aspect of the select committee on employee adjustments and plant closures.

Mr. Pilkey: I do not disagree with that. Maybe we were being a little kind. There is no question, particularly in the 1981-83 period, there were a number of plant closures and a number of those decisions were made offshore; they were not made here. We happen to believe that if we are impacted to that point, can we imagine what will happen under free trade? It will only be exacerbated. In our view, we will be in greater difficulty with a free trade concept.

Mr. Cureatz: I would not even mind it actually, with respect to the decision-making process, but there seems to be a great lack of concern for the two communities that were being affected. There was no investigation with regard to the ramifications, displacements and job loss. That hurts.

Mr. Pilkey: There will be greater impact--and I say the committee has to seriously look at this and try to get some data--particularly in small towns in northern Ontario which have single industries or resources, if those are no longer needed. It will be bad enough where there is some diversification, but in some of those towns, once that one thing goes, the whole community is affected. There is just really nothing left. That certainly will happen in some of the smaller communities in Ontario.

Mr. Taylor: I have a supplementary. I do not want to break up this love-in, but--

Mr. Cureatz: That is okay. You can come out to Oshawa and get yourself elected any time.

Mr. Taylor: Thank you for the invitation. I am content where I am.

Mr. Cureatz: We have noticed.

Mr. Taylor: I am trying to put your philosophy in the context of the General Agreement on Tariffs and Trade. If the evolutionary process around the world's marketplaces is to reduce tariffs across the board on a continuing basis, what posture do you take in connection with that approach? It looks to me as though it is a more evolutionary, slower approach than the bilateral one between Canada and the United States.

Mr. Pilkey: First, in the GATT negotiations, when there was a Tokyo round or whatever round, at least they were negotiated and there was some quid pro quo for all the countries. I do not think they were negotiating themselves out of any kind of a trade agreement. In addition, there is always the possibility of imposing nontariff barriers and there is the possibility of a country initiating quotas that may not be in violation of the GATT agreement. Those potentials remain.

I do not believe we would be allowed to impose any of those things if we had a bilateral free trade agreement with the United States. That would be a violation. Talking about free trade per se, I see the government of Canada is backing off a little and now is talking about enhanced trade. That is nice, but I have a deep and abiding feeling there will not be a great deal of difference between enhanced trade and free trade; they are just using another term.

Some options are open. There is a possibility of working out some sectoral agreements by taking it sector by sector. We have an example of that now with the auto industry where we negotiated a sectoral agreement that was in the interests of both parties. If we go down the road of negotiating sectoral agreements, we are going to be a long time doing it. Free trade is a different concept altogether; it is a global umbrella and will not take as long. If we go down the sectoral road, my guess is it would be a couple of decades before we started to work out all the agreements that would be relative to each sector. However, it is an alternative.

Mr. Taylor: Do I hear you saying you are really not opposed to the philosophy of GATT and the approach taken through GATT, presumably because you feel there is more potential for flexibility for individual nations within that context than there would be in a bilateral agreement between Canada and the United States? Does that fairly reflect your views?

Mr. Pilkey: Yes. We are not opposed to any negotiated agreements that reflect fair trade. What we are opposed to is absolute free trade that provides no protection for industries in Ontario.

We have to be cognizant of the fact there are jurisdictions in Canada that would vote for free trade with both hands. I was at



the first ministers' conference in Regina. Premier Lougheed came down hard, and I understand the reason. He would be able to sell a lot of those resources offshore out of his province, which he could not do under some sort of negotiated agreement.

On the other hand, Ontario, the manufacturing base for this country, could be impacted dramatically. We are trying to sell manufactured goods offshore. If those manufacturing plants could be uprooted and taken back to the US--that is one of the problems of the branch plant economy--we would not have control over the manufacturing base. I have forgotten the percentage, but I think more than 50 per cent is foreign-controlled, basically by the US. In Ontario, we are in a different position from some of the other jurisdictions and we ought to be aware of that. We may be fighting for our very souls in this province if we go the free trade route.

10:30 a.m.

Mr. Chairman: I do not understand why you are saying it would take longer to create a sectoral free trade situation than it would to have free trade.

Mr. Pilkey: It would take much longer because you would isolate those sectors you wanted to negotiate with the US. It would be my guess there would be negotiations going on for 10 or 20 years as you covered each sector. I used this just to illustrate a point because I do not really know. If you look at the number of sectors--and I have forgotten how many there are, but there are a great number of them--unless you have simultaneous sectoral negotiations going on, I do not think you could do it. It seems to me you would set up a team which would meet on an ongoing basis. If you wanted to negotiate some sort of quid pro quo sectorally, it would take one hell of a long time.

Mr. Chairman: First of all, there is nothing terribly wrong with that, as long as you are doing it right. Second, surely free trade is something that is going to have to be negotiated too, perhaps with some sectors opting out of it. Is that something that is going to happen overnight?

Mr. Pilkey: No. Except if you go the free trade route, what you are saying is that you are not negotiating. As an illustration, in the auto pact there are content laws. Under a free trade concept that would be irrelevant. You would not have that. That is what I am saying. When you start negotiating sectoral agreements, then you negotiate some quid pro quo with the US, and you might set up Canadian content provisions within that sectoral agreement. So it differentiates quite dramatically between a free trade concept and sectoral negotiations.

The moment you start down the road of negotiating sectoral agreements, then you have abandoned free trade. There is no question about that in my mind.

Mr. Chairman: I do not see why we cannot say to the US we want a free trade agreement, but we want to opt out in so far as the auto pact is concerned and keep the auto pact.

Mr. Surich: If I can add to that, I do not think we want to say that to the US, because I think it is quite clear, despite what a whole lot of economists are going to tell this committee, that the disadvantages for Canada outweigh the advantages enormously. In turn, there are great advantages to the United States and to American producers from a free trade pact with Canada, simply put.

The Harris and Cox study suggests--and I think it is fatally flawed, but nevertheless--seven per cent of the labour force would be affected. It is a model based on numbers that come largely from the 1970s, and one which has to assume there is full employment. We know full well that does not exist now and is not likely to exist for some time. We could be talking about one worker in five being displaced from his or her job.

An economist looking at the thing dispassionately would say that workers move. The reality is, of course, workers do not move in the same way iron ore can be moved around. I think this committee, and certainly the government of Ontario and ultimately the government of Canada, is going to bear enormous responsibilities in trying to deal with that level of social dislocation which wipes out communities and families and forces people into work styles and lifestyles they have never been in before. It probably particularly victimizes older workers, women workers and all of those people who are now employed in the more labour-intensive industries. It will have the effect of seriously--and a lot of reports suggest this is in fact the case, even based on those models--depressing wage levels in Canada.

I think it could be argued ultimately to represent, if it were implemented, a major continuing shift in income from workers to other sides of the economy capital, if you like. If you look at it in those terms, unless you can seriously think about a process of adjustment that looks at it in union terms, I think any attempt to enter into a free trade agreement with the United States would lead to some really disastrous social consequences in this country.

Mr. Chairman: Do you have any more recent information than Harris and Cox on potential movement of labour or on the plans for foreign-owned, particularly US-owned, companies?

Mr. Chairman: Do you have any more recent information than Cox and Harris on potential movement of labour or on the plans for foreign-owned, particularly US-owned, companies?

Mr. Surich: It is the point we make in the brief that somebody suggested was kind. We do not know, but we can suspect that branch plants will in large part shut down. I would like you to ask one of those expert economists who specialize in these questions, when they come along, what happens to Canada's position as an exporter to the United States, which takes most of our exports now.

With free trade, does the dollar go up to par with the American dollar? What happens to the value of our commodities

compared to theirs in that situation? I think we will be quite uncompetitive on a range of products and that market, in turn, will be supplied from the United States.

Mr. McGuigan: A number of people have talked very glibly about sectoral free trade as an alternative to going to free trade. All of us look at the auto trade agreement as being of some advantage to Canada. They seem to forget that the net movement on the auto trade is in favour of the Americans. If you add it up over the 15 or 20 years, they have had billions of dollars in their favour. All we have done on the auto trade agreement is preserve part of it for us. We still have not preserved our full share. We have kept it from going a hell of a lot worse than it would have been if we had allowed it to continue on its course.

Where is the sector where we might say we would add to the auto trade and have as good an arrangement? For instance, we ship them lumber, but they do not ship us very much. There is a bit of hardwood that comes into my riding, which we manufacture and send back to them in the form of flooring. In agriculture products we are very close to free trade now. Because of our marketing boards and a provision of the General Agreement on Tariffs and Trade, we have been able to preserve some agricultural areas, but most of them are free trade. To back that up, 60 per cent of North American agriculture is based upon corn as feedstock and corn moves freely across the border from the United States.

Can anybody pick out a sector or more than one where we could negotiate this sectoral trade that everybody speaks about so glibly? I cannot find one, but I am not an expert.

Mr. Pilkey: It is possible. If you look at the yellow document, on page 18 you will see a table on bilateral free trade and sectoral free trade. It lists about 20 industrial sectors in which there is potential for working out sectoral agreements. I would be less than honest if I said I knew the next one after auto. I do not know which one you would target immediately, but there are a number of them there.

You mentioned agriculture. If you look at the agricultural implement industry, where there was free trade, a flow back and forth between the US and Canada, I do not have to tell anybody sitting in this room that we got clobbered in the process. It has devastated the agricultural implement industry. We do not have one, just a little place in Manitoba in the end. I am not even making the argument that free trade alone put us into that position, but the reality was that the ag implement industry in Canada had free trade, a free flow back and forth, and that whole industry has gone belly up.

10:40 a.m.

Some people might be able to persuade me that did not have anything to do with it, but in the prima facie case, it demonstrates to me that they got caught up in it. If that is what had impacted on the agricultural implement industry, can you imagine what is going to happen to the rest of manufacturing in Ontario? We will become a have-not province in the future.



Mr. McGuigan: May I respond to that? It illustrates the question I was asking. Where do you duplicate another free trade area, other than auto, where it would be beneficial to Canada? The problem with agricultural implements is that our market is very small. The market in North America for tractors is only a few thousand manufactured a year, whereas 10 million cars are manufactured a year. The number of tractors in all of North America is very small.

We have had some success in Hamilton with International Harvester, which makes all the grain drills for North America. At Massey-Ferguson in Brantford, most of their combines go to the United States. Massey is the only combine manufacturing plant that--

Mr. Pilkey: My point is that we did have a viable agricultural implement industry in this country irrespective of the numbers needed. We had a viable industry. I remember in 1972 I was a staff representative for Massey-Ferguson. We had thousands of workers in Brantford. There were two plants, the Verity plant and the combine plant in Brantford, and there was a big plant in Toronto. We had a lot of employees even back then. That is only 13 years ago. That is not the case today.

Mr. McGuigan: But there is not a viable agricultural implement manufacturer any place in North America at the moment, though. The only people--

Mr. Pilkey: John Deere is holding its own.

Mr. McGuigan: They held their own. There is a recession in that industry.

Mr. Morin-Strom: Was 1972 after about 20 years of free trade?

Mr. Pilkey: Yes. I do not know how long we had free trade in the agricultural implement industry. I could not tell you the exact time that started. I am sure we did not have it from the beginning. At one time we were actually manufacturing in the United States. Massey-Ferguson had plants in the United States, and we were the branch plant moving our stuff into the United States at the time. That is gone.

Mr. Morin-Strom: You are talking about a very good example of where a sectoral arrangement would be much wiser, not only on agricultural machinery but nonagricultural machinery as well. The machinery field is where an auto pact type of arrangement makes complete sense for Canada. The point is not that we need a free trade arrangement like auto. It is not the free trade portion of the agreement that is the important one; it is the Canadian-content portion of the auto pact that provides the assurance we are going to produce products in Canada and we will have jobs here. If we had an arrangement with the Americans in the machinery field by which we had our fair share of jobs and production in Canada, that sector could be a major area of growth in our economy.

Mr. McGuigan: That would include Canadian content in the term "sectoral free trade."

Mr. Morin-Strom: The point is Canadian content; it is not free trade. Our objective for going to free trade, using the auto industry as an example, is the reason for having Canadian content legislation in major industrial areas where we are now importing all the products that are being purchased in Canada rather than producing them here.

Mr. Pilkey: What must be remembered is that the auto pact is not free trade. That has to be understood right from the word go. It is not free trade at all.

Mr. Knight: I just wanted to follow up on some of the comments Mr. Cureatz made regarding the potential problems because of our being largely a branch plant economy. Although in the past there have been problems inherent in closing down branch plants, those could be even greater under a freer trade arrangement because of the unused capacity in the United States. I think that is an aspect mentioned in your brief.

I am not sure our witnesses today have the kind of information I think might be important. What sectors in the United States economy are in that position of unused capacity to a degree such that they may be the ones which, in the short term, are going to create closures in Canada because of its utilization? I am not referring to what economists have told us here about dislocations that occur because of specialization. However, it seems free trade could result in a fuller employment of the labour force in the States to the detriment of Canada's, not just because of specialization but because of shutting down plants to the benefit of the US.

When I hear bilateral trade with the United States referred to as enhanced trade, I wonder just for whom it is enhanced. Do today's witnesses have any information that might be important to us regarding those particular subjects?

Mr. Surich: Maybe I can just respond in fairly general terms. Capacity utilization in the United States is around 80 per cent. That is distorted a little because of the tremendous downturn in some sectors of American industry, such as steel. It is clear the current trade deficit, caused by the dollar, has cost about three million manufacturing jobs. It is equally clear that were the Canadian dollar closer to par, some of those three million jobs could be recovered simply by shipping to Canada and closing plants here. I do not think there is any doubt about that. Producers have said they would do that. Several of them have said there would be no reason to produce in Canada if there were no blockages like tariffs and nontariff barriers. It would make much more sense to gear up their plants closer to the 90 per cent level they like to shoot for and to supply the market.

In the context of American production, we are still a relatively small market. In most sectors, they would not have any problem supplying us from the United States.

Mr. Knight: Do we know which sectors we are referring to when we talk about shifting manufacturing to the United States?

Mr. Surich: Economists call it miscellaneous manufacturing. It is everything under the sun. The exceptions are things like primary steel. I do not think the Americans can supply any market. They cannot supply their own market competitively any more.

Automobile parts of some kinds, in particular whatever machinery is produced here now, is likely to disappear. All the projections suggest that is likely.

Mr. Knight: Would it be fair to say it might very well be our higher level secondary manufacturing?

10:50 a.m.

Mr. Surich: Not entirely. Manufacturing wages in the southern United States are very low. South Carolina and North Carolina have the highest proportion of the labour force in manufacturing. They also have among the lowest incomes in the United States.

Mr. Mackenzie: At the beginning, my friend Sam mentioned the select committee on plant shutdowns and employee adjustment. There are a couple of examples I want to use. I hate to have to remind him, but everybody from all parties on that committee got an earful and an eyeful as to what was happening in terms of the ability to close down branch plants, which could be accelerated with free trade.

That committee and its recommendations never did see the light of day after the 1981 election. Sam may recall there was an unwritten report of the plant shutdowns committee that we filed because of our exasperation over having all that work killed.

Mr. Cureatz: I did not sign that though.

Mr. Mackenzie: No, you did not sign that.

There are two examples worth taking a look at. We had the people before us on the committee with regard to the Bendix plant in Windsor, which I mentioned earlier. At those hearings the testimony of the owners and the Canadian manager, who was a gentleman by the name of Robert Smith, if I remember correctly, told us very clearly that they had made a profit for 40 of the 41 years they were in business in Windsor. They had made a profit in the last few years.

Mr. Smith was a newly appointed manager. They had done considerable upgrading in that plant and he intended to make an even better profit in the next year or two. His testimony before our committee was that he got a wire from the head office of the firm. It may have been in Milwaukee; I forget. He was given exactly two weeks to justify why he should keep the Canadian plant open when they had unused production capacity at the head office and they could produce and do better profit-wise, even though they



were making a substantial profit in the Canadian plant, by shifting the entire production to the United States.

His testimony to us before that committee was that he sat in at the meetings where they discussed the production capabilities, quotas and costs. At the end of the two weeks, based on the bottom-line profit and loss situation of that company, he could not justify keeping the Canadian plant open. They could make even more money by using the unused capacity in the American plant. He had exactly two weeks, as Canadian manager, to make a decision and his answer was that they should close down the Canadian plant. There were 500 or more workers involved and whatever services we had put into place for them in Windsor. That is how quickly and easily you can see a move of an industry and a plant.

A more recent case that has some other connotations we should take a look at is the Allen Industries Canada plant in Hamilton. That was not before our committee, as that plant closed later. It did not go to the States, but to Chihuahua in Mexico. Ostensibly, the reasoning was that they could produce with wages of from 90 cents to \$1.26 an hour as against the \$10 they were paying here. There is a lesson for us in the Hamilton plant. The Mexican government built a plant for them, which seems to me to be an incentive.

One also has to ask the question of how much was involved in terms of content legislation. Mexico now has some pretty good content legislation in automotive parts. That is something the major assemblers in Canada should take a look at and be guided by, because you cannot sell an automobile in Mexico without some content percentage. We have to ask whether it was just the wages or whether it was the supplying of the plant that caused us to lose Allen Industries, or whether it had something to do with the content legislation. That is one of the arguments we simply have to take a look at in trying to protect our industry.

There is no question, if you have unrestricted free trade, you have some real problems with existing branch plant operations. I have a question to ask Cliff and the people from the Ontario Federation of Labour. If we are going to accept the principle of free trade, we are automatically making international competitiveness our first industrial priority in this country. If that is going to be our god, where are we going when it comes to jobs?

I suspect we cannot compete in many of the things we produce in this country if the priority of the economy and of the government is international competitiveness. That is why I come down on the side of content legislation and on the side of import replacement, etc. We have to protect some of the principles and standards we have set in this country.

Mr. Pilkey: I agree with you. If international competitiveness becomes our god, we will have some difficulties. It does not mean we ought not to look at it. How do we compete in a world trading environment? However, we ought not to be totally caught up in a policy to the detriment of Canada.

To take it one step further, in some ways that is what the United States is saying. We have President Reagan talking about free trade, and then we have the flip side of the coin with a number of senators and congressmen trying to set up a protectionist society, even to the point of putting in some bills. As a result of that activity, there are people in Canada saying, "We have to negotiate free trade because we do not like the alternative," the alternative being some sort of protectionism in the US.

My argument is we ought not to be stampeded by that. I appreciate what is going on. As an example, last night we heard that one of the senators from Michigan is going to call a meeting in Detroit and another in Windsor to talk about trade in Michigan. They are being impacted and they understand what it is all about. I understand that. If any of you elected representatives were getting clobbered in your constituency, you would be hell bent to protect it and stave off any imports into your area or the part of your country being impacted. I understand that perfectly and we are going to be faced with that.

I do not think one can even sit down with them and negotiate some sort of reasonable, rational, responsible agreement. All they see is how their areas are being impacted and they want some action. They are not talking about more imports coming in or any coming in; they want to close the doors.

Canada should be concerned, but we ought not to be stampeded as a result of that. We have a lot of cards to play, too, and if they want to do certain things--we talked about sectoral negotiations--we had better begin to understand the tradeoffs. I am not sure we understand what the tradeoffs are.

I am going to ask the people who are really talking about free trade this: How do we enhance Canadian exports? If they say this is enhanced trade, what are the exports we are going to have over and above what we have today? Somebody had better tell me that. I do not know what they are. Nobody has made that case. Where the hell are these additional exports we are going to have in the interests of Canada and improving our international competitiveness?

11 a.m.

There is a last point I want to make; I know I am digressing for a moment. There is a sense of ignorance about Canada in the United States. I saw Reagan on television about four or five months ago. The President of the United States was talking about their major trading partner and saying it was Japan; in reality, it is Canada. They do not even realize across the border that we are the major trading partner of the United States. If that ignorance is reflected at the presidential level, can you imagine what is going on down below in regard to Canada? We have to get the message to them that we are a pretty important trading partner and we are not going to be stampeded into free trade or any kind of an agreement that is not in the interests of Ontario and Canada.

Mr. Mackenzie: Would you say one of the real dangers is



that we have cards to play in this country of ours and one hell of a lot of wealth but we could be trading them off with this kind of a deal? I think we have been in the process of trading them off.

Mr. Pilkey: If there are tradeoffs, we had better understand what those tradeoffs are and be able to negotiate them with some effectiveness and not just a free trade policy and program that creates that free flow. I guess, Bob, the problem I had with all this--I do not want to sound partisan but maybe it will come through that way--is you have got a government just recently elected, and I say that with great respect to the Tories who are here, but they have had an ideological thrust that embraces free enterprise and a market policy that responds to it. They may be caught up ideologically in this whole free trade area. It does not make any sense but on the other hand, if you believe that philosophically it may make some sense.

Mr. Mackenzie: One final point. We may be skirting around the case. I have a suspicion the whole issue of free trade is one hell of a big red herring and I am more concerned with what we are doing with regard to jobs.

There is a sheet I am sure all the members got. I cannot verify this for those not in the committee but it was sent to our offices because it was sent to all elected representatives. It is from the Shoe Manufacturers' Association of Canada. A couple of the comments in it really scare me. They are asking for import restraints and a five-year period of equalization between imported and Canadian footwear.

They go on to make three points and one of them really drives the issue home to me. They talk about the ineffectiveness of the quotas they have had since 1979. During that time they have seen a decline in their industry from 47 per cent to 38 per cent in 1983. They also make the point, which I think is significant: new development in computer-aided design/computer-aided manufacturing and robotics will reduce the wage and salary costs from 26 to 16 per cent. The costs are now coming on the market. Incentives to adopt labour-saving technologies are far greater in Canada where our labour rates are seven dollars an hour compared to 70 cents in Brazil, Taiwan and South Korea.

There are a couple of messages in that which scared the living daylights out of me. If we are moving into this unrestricted area, and if we do it by taking off the controls, we have got to compete by reducing our costs from 26 per cent to 16 per cent. We can do some of it with robotics and the new technology but we are also going to have to take a look at those wage levels. We are seeing a trend to part-time work in this province. There is a piece in the paper about it this morning. This is why I question the future or the whole purpose of the free trade argument. It seems to me we may be dealing with the biggest red herring in the country at the moment.

What I am asking is what do we do with regard to people. It may be we should be paying a hell of a lot more attention to people, above and beyond things such as content legislation and import replacement, which can be seen as protectionism to some



extent. Are we looking at a world where there is work for people in the future or not? The real issues may be control and distribution that we should be talking about. Maybe we should be looking at lowering the hours of work and a lot of other issues which certainly do not enter into being more internationally competitive. But they may very well be the issues we should be looking at seriously.

Mr. Chairman: There might be a response to that. I do not know.

Mr. McFadden: I have two or three questions. I notice the brief did not mention Ontario's overall position in the world with particular reference to its dependence on the US market. Several witnesses to date, and members of this committee including me, have some concerns about the fact that 90 per cent of Ontario's current exports are to the US. I find that a very dangerous position for Ontario to be in. Canada's percentage is something in the range of close to 80 per cent.

I am curious to ask you what your attitude is on our dependence on the US market, and whether you think that is a good position to be in. Is that not one of the reasons you are somewhat reluctant about going too far down this bilateral route? I would just like to get your attitude on that particular point.

Mr. Pilkey: I think a lot of that trade is auto, I really do not know what percentage. Eighty per cent of the products we produce in Canada, are exported to the US. That would be a big piece of the action in terms of our exports. I guess forest products too would be a big piece.

Mr. Surich: Energy, electricity, oil and gas.

Mr. Pilkey: Certainly. I think if we could make it more diversified, as opposed to relying on one nation, that is what we ought to do. We have not been able to do that. As a matter of fact, I saw some figures not so long ago where our trade has fallen off a little. If we could take it back to where it was in the 1970s, and I have forgotten what year and how many jobs, it would mean innumerable jobs, so it has fallen off. It is not a large percentage, but as far as jobs go, it is.

Mr. McFadden: In terms of our share of the world.

Mr. Pilkey: Yes. It has impacted, there is no question about that. All I can say is I would prefer that we not have that as as large a trading area as we do. I guess it is close and it is accessible and we exercise it, the same as they do. We are their largest trading partner, so it is flowing back and forth.

I do not really see a great problem with that if it were fair. It has to be fair. We cannot be dumping in their markets and they cannot do it to us. I was talking to some people in the steel industry recently. They are spending half their time in Ottawa because of dumping from other countries into our markets. That is another problem that has to be faced: unfair trade, unfair competition.

That creates the other problem for us, and I think Jo alluded to it, which is the kinds of services we have in this country. If you get hooked in with the US, are they going to see that as a mode of unfair trade because we do certain things? You saw what happened in the forest industry in British Columbia. They were saying that the fact that crown land is given to the processors out there at a reduced cost is unfair and that they We cannot compete with that; but we have done that historically, traditionally. If we could find other markets, I would have no opposition to diversifying, if that is what you are saying.

11:10 a.m.

Mr. Surich: If I could just add a couple of things to that. When you look at the volume of trade with the US--which has been increasing in the last little while, largely because of the difference in the dollar and the fact that our dollar has appreciated in relation to European currencies--a lot of that exists because of the branch-plant nature of the economy.

A very large proportion, and I have seen estimates as high as 75 per cent, of the trade goes back and forth within a firm. The auto exports we make to the US are from General Motors here to General Motors there and vice versa. Some of that is determined by the structural nature of our economy. I do not think we can easily escape that.

I think there is potential for Canada to be an exporter to Europe of processed and manufactured goods, but only in a situation in which the American dollar declines to the value it ought to have, as opposed to the bizarre one it currently has. As long as that is the case, and as long as we tend to track it at about 74 cents American, I do not think there is a possibility of selling in European markets.

The structural nature of our economy is such that in a lot of sectors there simply is no desire to sell abroad, apart from to the US. It does not make sense for a branch plant to do so, usually because it would then compete with the parent plant. Those are the realities of the way our economy has developed over the years.

The problem with these arguments about free trade is we would simply finish that process. We would export more to the US, but it would be more energy products, more primary products, more iron ore and a lot of products that are largely capital intensive and employ hardly anybody.

Mr. McFadden: We were talking about the question of what sectors might be productive. As to the kind we might look at, one idea I will put forward for your consideration is that we might look for sectors where there is a substantial amount of Canadian ownership.

I noticed one example in your brief. We could look at urban transit equipment where Bombardier and the Urban Transportation Development Corp. are both Canadian run and controlled and are

very active in the export market. They also have fairly good research and development programs. Probably the only other player in that market in Canada is General Motors, which is American controlled.

Mr. Surich: There is a manufacturer in Mississauga.

Mr. McFadden: That one is Orion.

I am curious. If a strategy were developed, sectoral agreements might be advantageous. That is one sector we could look at. What are the kinds of things you would look at in a sector for us to proceed and push ahead? Are there specific characteristics? Would Canadian ownership be one of them? What other kinds of characteristics would you look for in determining the sector if we wanted to recommend we go ahead?

Mr. Surich: I guess you look for advantages for us. In the urban transit area, we appear to have some advantage at the moment. That would be enormously enhanced if there were no largely nontariff barriers with procurement policies and requirements about portions being manufactured in the United States.

On the flip side, the Americans would be looking at sectors where they have an advantage. Negotiating a free trade pact on urban transit equipment would be extremely difficult, because the American producers who objected very strenuously to the Bombardier deal--which I guess is the biggest of the works--would see themselves as having their oxes gored in the process. It is not an easy thing to negotiate.

We have to keep in mind that the auto pact was negotiated in the context of two, three or four large firms operating on both sides of the border. That auto pact may have been in the interest of Canada to some extent and in the interest of the US, but it was very much in the interest of General Motors, Ford, Chrysler and perhaps American Motors; largely for the Big Three manufacturers.

The sector I think would be worth looking at, aside from urban transit, is telecommunications. Northern Telecom is establishing plants in the US to supply American markets that presumably could be supplied from here, but it is an area in which there are a large number of producers in the US and, therefore, it is much more likely to be difficult to negotiate such an agreement.

Mr. Pilkey: One of the things you have to have in any kind of agreement, and I think this happened in the auto industry, is rationalization. That is one of the questions I would be looking at. If it were possible to get a sectoral agreement with them, first, how do we rationalize it; second, we would want at least a percentage of the dollar value that would be involved in that. Whether that is 50 per cent, or whatever, is a negotiated thing. For me the main criterion, if you are going to get into a sectoral agreement, is rationalization.

That is exactly what happened in the auto industry. We do have not produced models in Canada since 1965. I know because I came out of the auto industry. For example, there was a



Chevrolet-Pontiac line and an Oldsmobile-Buick line. We do not have an Oldsmobile-Buick line any more. The big cars were shipped out and you had rationalization.

The problem with rationalization is that the number of products you can produce is reduced substantially. There is the potential of getting one that is not going to sell in the market. There is a risk inherent in that. If we have the dogs over here in Canada in the auto industry, they are the ones we are going to sell. We have problems, and they have problems too, by the way, in meeting the content provisions. Nobody is buying them. So there is always an inherent risk in rationalization of an industry. But I guess that is possible.

To take it to extremes, if we rationalize the clothing industry, maybe in Canada all we produce is the pants. Somebody is making the coats, the vests and the shirts, and all we have are the pants now. We would be safe there, I think. A lot of people might shed their coats but not too many people want to shed their pants. That kind of rationalization would take place and it seems to me it is very important.

Mr. Eleen: We might lose our shirts.

Mr. Pilkey: We might lose our shirts in the process, John. You are right. But it would be more serious if we lost our pants.

Mr. Eleen: If I can butt in, the problem with bilateral trade negotiations is we have such a hell of a poor record in negotiations with the US. We were making some progress with acid rain and then they decided to adopt the American stand on acid rain, which is to study it more. One of the former Premiers is sitting on it now. When the Americans wanted us to get rid of the Foreign Investment Review Agency, we got rid of it. That is what happens in negotiations with a big and powerful nation.

You might use the example of the European Community as a group of states that got together. They have free trade but there are problems. Probably the most powerful nation in that group is Germany but it is not more powerful than all the others put together. In the case of bilateral trade with the US, we are negotiating with a country that is 10 times as big as ours in population and probably 20 times more powerful than we are economically. We are negotiating in a mouse-and-elephant fashion.

11:20 a.m.

That is where our problems will come in. In that setup, we will have to get rid of a lot of our things that are superior. We might even have to get rid of medicare to compete in a free trade arrangement. I do not think there will be any negotiations, really.

Mr. Chairman: I do not know whether we really negotiated anything when we got rid of FIRA, but I am not hearing any real alternative from these witnesses. How can we avoid dealing with the United States? Mr. McGuigan has a supplementary.

Mr. McGuigan: I mentioned this yesterday and Mr. Pilkey brought it up. I just wonder what his reaction would be. He said we rationalized the auto trade, but there were some irrational happenings. It seems to me that when production was started--and you mentioned "dogs"--they gave us a small car in the late 1960s and the early 1970s. I can well imagine the thinking in Detroit would be, "We are not really going to sell many small cars, so let the Canadians make them." Then the Arabs came along and changed that situation. They decided the small car was going to be the wave of the future. Detroit said, "We will give the Canadians the big cars and when the consumers' taste changes, we will change the fuel consumption."

Do you think they really did that with those motives in mind? Perhaps you are the wrong person to ask.

Mr. Cureatz: No one is smart enough to figure all that out.

Mr. McGuigan: I know you have a background in the auto business.

Mr. Pilkey: I am persuaded that they were not so benevolent as to give us the best deals. Events, as you said, did ultimately provide us with the best deals in the process, but I will never be persuaded that they did that out of any benevolence at all.

Mr. McGuigan: Had they reversed that situation, we would not be looking at the auto trade agreement as the great star, would we?

Mr. Pilkey: I would just say this off the record--well, I guess you are always on the record.

Mr. McGuigan: We are always on the record here.

Mr. Pilkey: We cannot get off the record here. Some of us opposed that initially and were castigated for it. As I recall it, we were charged with trying to manufacture the Beaver back in the early 1960s. I do not think it has been the worst thing to happen to us. It has been beneficial to the Canadian auto workers, at least until now.

Certainly we were disturbed with all the deficits that existed for a long time. It is only recently that this has turned around. That gets back to Jo's point, the dollar. An auto worker is getting, in total, about \$7.50 an hour less, so it is nice for them to push it all over here and get the work done at this time.

Mr. McGuigan: I agree it has been beneficial compared to the situation before 1965. I wonder whether we would be saying that if they had made a different decision about where these cars were going to be made.

Mr. Pilkey: That is a good question. I do not know.

Mr. Ferraro: In my opinion this committee is here, to

some extent, as a knee-jerk reaction to the federal initiatives. Having said that, I am firmly convinced it is healthy for us, as legislators, and for the general public, to discuss this and other issues aside from the free trade aspect.

Dispensing with specific negative or positive results of a possible free trade arrangement with the US, it is obvious to all of us here that, aside from sectoral interests, there are provincial interests as well. My question is basically in two parts and I ask for your comment.

In your opinion and in the opinion of the committee, do you think that Canada is unified or sophisticated enough to appropriately--and I say that in having an industrial policy to deal with the issue of free trade specifically. Second, some would argue this is the only way the federal government could get the provinces or the country to address it. Could you comment on that?

Mr. Pilkey: Because of its specific impact in Ontario--and it has to have impact in other jurisdictions as well--the federal government, and I do not want to appear partisan, is totally irresponsible in not setting up mechanisms whereby Ontario becomes a major player in that process. We are the largest province. We will be affected more than any other province outside Quebec. I am not even sure about Quebec. The government of Ontario, whether Tory or subsequently Liberal, has to be a major player in that process. One cannot operate that way and do that to us. I do not mean being part of a consultative process; I am talking about being a major player.

Mr. Ferraro: I agree with you, but aside from the fact we were somewhat neglected, do we have a national consensus so we could deal with that?

Mr. Pilkey: We are not going to get a national consensus if you just run off and do something unilaterally. How do you get a national consensus? You do not--

Mr. Ferraro: The federal government might say we have it as a result of the last election. I do not mean to be fed-bashing.

Mr. Pilkey: That is a good argument. You are right. They could make that assumption, but there are a lot of political risks involved in making that. They made one and had to turn around on it very recently. They made a 180-degree turn. You cannot risk that. No matter how many seats you have in a legislature, whether federal or provincial, you have to understand there are players who want to have some input in the process.

Mr. Ferraro: Do we have that national consensus?

Mr. Pilkey: No, we certainly do not have a national consensus on free trade.

Mr. Ferraro: Or on an industrial philosophy?

Mr. Pilkey: We do not have one on that either. We are still operating under the shadow of a marketplace economy. If that



is the philosophy, they are really saying the cream comes to the top all the time and in the process there have to be winners and losers. It is very nice if you are on the winning side of that equation, but it is not palatable when you are on the losing side.

That is one of the difficulties in the labour movement. Somehow we are trying to escape that winner-loser philosophy. That does not mean we ought to terminate the private sector or private sector economy. We are not saying that. I do not want to get into the political philosophy of what we are doing.

11:30 a.m.

I want to conclude. I know you are fairly busy. This thing is going to have to be faced in a rough, raw, political sense. There is no question about that in my mind. The people in power ought to understand that is not the route we want to go. I am not persuaded they have got the message yet. That is why I am very thankful the government in Ontario set up this select committee. It gives people an opportunity they would not have been afforded, a presence or chance to speak out on such an important policy matter.

Again, one is accused of playing partisan roles, but somebody is going to have to understand where the people of Ontario are, where the interest groups are and understand the political ramifications, too.

Mr. Ferraro: It cannot work without Ontario's co-operation.

Mr. Pilkey: I do not think so.

Mr. Knight: In your brief you have indicated one of the negative effects of free trade would be a downward pressure on Canadian wages and benefits in the manufacturing sector. Would one of those pressures be the introduction of a two-tier collective bargaining process?

Mr. Pilkey: I see that as a reality without free trade. It certainly could be exacerbated. At this time, Mr. Holder is more involved with that than we are because he operates in the whole collective bargaining arena. The realities are they are going to make that attempt.

You are right. I firmly believe, if we had a free trade concept, we would be faced with greater threats.

Mr. Holder: It would just speed it up.

Mr. Pilkey: That is right. They would say: "Look, my friends, you cannot agree to a two-tier wage-benefit package. We are shifting back across the border. We do not have to stay here." We would be under tremendous pressures as a result of that.

Mr. McFadden: I have one question with regard to the auto pact. It is a detail but it relates to a concern I have had for several years, after an involvement I had. I know under the

auto pact there is a requirement we do final assembly in Canada for any corporation that becomes a part of the pact. There has been some debate in recent years over whether we got the good or bad end of the stick because most of the research and development seems to be in parts and we are doing the relatively simple work that may be in the long run most subject to automation.

There was an incident in which I was involved. An American truck manufacturer that typically manufactures only about 1,600 trucks a year--large, specialized vehicles--wanted to secure duty-free access to Canada. In essence, it would only be bringing in maybe 50 or 100 trucks a year.

We had discussions with the federal government, with an understanding we would sign an agreement with the federal government to purchase in Canada four times more parts than finished trucks. The net effect would have been that the parts purchased in Canada would cost about \$10 million per annum over a five-year period. The probable value of the trucks would not be more than \$1 million or \$2 million. After the five-year period it would go back to a 50-50 arrangement, but the government was prepared to enrich it in the first five years.

The federal government took the position then that it did not care whether all the pieces were brought in and these trucks manufactured in someone's garage somewhere. It did not care if anything was brought in, just as long as someone put in some bolts in Canada and shipped it out from this garage. It did not care if two people or 10 were employed, provided the final assembly was done here.

This particular company said: "Look, we have a lot of pride in the quality of our product. We are prepared to buy from Canadian manufacturers"--from whom they did not buy now--"a considerable amount of product in the way of auto parts." They have gone to the bother of meeting with the companies and getting quotations, but the federal government said: "No way. We will not grant you any exemptions. It is contrary to the pact."

That is the only involvement I have had, but it struck me at the time that this cost Canada a considerable amount in the way of wages, jobs and missed opportunities in the American market because of a rigidity that almost seemed bizarre to me. It was a matter of public policy. The civil servant involved said: "I do not care if you produce it in your backyard and just put a few bolts in, but you have to do it here. We do not care how much benefit there is to the auto parts manufacturers."

I am curious with regard to this agreement, if there are even certain parts of the auto pact we could review. I would have thought the important thing is jobs, value added, for this country. Final assembly may not be the only criterion. I do not want to upset the applecart for a lot of workers now in the assembly area, but I am curious to know your attitude on that rigidity and whether that deprives Canadians potentially of job opportunities they might otherwise have.

Mr. Pilkey: We talked about this kind of thing, where

those rigidities are in place, the weaknesses of the pact. The difficulty with deviating at all from the pact is that you open it up and the moment you do that, the Americans have some concerns they want to address.

You are absolutely right that in this case those rigidities were detrimental to us, but the danger is that the moment you deviate in the slightest, even when the US had a balance of trade on its side, there are people making a lot of noises in Congress about opening up the auto pact and renegotiating. We thought maybe we ought to renegotiate it, but then we sat down and looked at the pluses and the minuses. We had a deep abiding feeling we might come out on the short end of that one. We are prepared to take the risks, but that is the difficulty. When you open it up, they have some scores they want to settle.

Mr. McGuigan: I have a philosophical question that Mr. Mackenzie touched on. We have not really adjusted yet to the automated economy. It seems to me the bottom line is that we can get all the goods and services we customarily require, unless we suddenly find out there is some gizmo we had not heard of before and we need it. We can get all our goods and services with only 85 or 90 per cent of the people working. We have not adjusted to the fact that it only takes three per cent of the people to grow all our food and that automation has replaced workers.

The strange part about that is that ever since the Industrial Revolution we have been trying to get away from work. If a group of us were here doing a job, soon someone would say there was an easier way to do it. We would do it the easier way and that meant somebody was not required. Governments have not come to cope with that. They are still saying, "We have to get our people to work." That is what the US congressmen and senators are doing, saying, "We will take that work from the Canadians." We are doing the same thing, saying, "We will take it away from the Koreans" or from somebody else.

11:40 a.m.

Industry has not come to grips with that, and I do not think labour has either. You people say you will take a shorter work week or fewer hours, but you want the same pay as you got before. How do we pay those people who were laid off? All of us say: "If you put the tax rate over 40 per cent, then we will go into an underground economy. We will circumvent the system. We will not accept a high enough tax on the people who are working to pay for those who are not working." Labour will not accept lower wages for fewer hours. How do we get out of this dilemma? We are all to blame. How do we ever get out of the damned thing?

Mr. Pilkey: Again, you set it out by saying it is philosophical. You are right, it is philosophical. There are a couple of things that come into play. One is the whole question of a fair redistribution of the wealth. How do we do that? At this point, from the trade union point of view, we do that through the collective bargaining process. That is how we say we are going to get our fair share of the economic pie we created. That is okay. That has been a viable institution.



What about those people who do not have collective bargaining rights or are even denied them? How do they get their piece of the pie?

Mr. McGuigan: Or are displaced.

Mr. Pilkey: Or displaced, right. How do they get their piece of the pie? You have the redistribution of wealth and work, so all those things come into play. There is no one who has any magic formula for that. What you would have to do is adopt a broad objective and then try to define that in terms of implementation. We do it to some degree.

Let us say we adopted redistribution of wealth as a philosophy, and we have done that to some extent. Some of it is done through social services, some through the minimum wage and some through unemployment insurance. It is not a big deal, but that is another way. In a minor way we have that redistribution.

Mr. McGuigan: There is a ceiling of about 40 per cent. As soon as you top the 40 per cent income tax, people circumvent the system. This is what happening now.

Mr. Pilkey: Except that has not been the case in Sweden, for example. I was in Sweden about a year and a half ago. They get hit much harder.

We are digressing for a moment, but I remember meeting with former Premier Bill Davis and some members of his cabinet. At that time we wanted to put an additional tax on income. What do you call that?

Mr. McGuigan: Surtax.

Mr. Pilkey: Surtax. That is the word I was looking for. I had about 25 leaders of the labour movement with me in that cabinet room. We were talking about putting a surtax on anything over \$40,000 a year. At that time an additional five per cent would have generated something like \$200 million in Ontario. Obviously, we said it had to be earmarked for job creation. I can tell you every one of the people sitting at that table with me would have had to pay that additional five per cent. There was not one person sitting there who was earning less than \$40,000 a year. We were prepared to do that. It did not get a lot of publicity, but we were prepared to do that.

Mr. McGuigan: To get the amount of money that is needed, you would have to go down to \$25,000 and \$30,000.

Mr. Pilkey: We may very well have to, but we could have generated some additional capital that would have been translated into employment. I know I am digressing from free trade, but I wanted to make the observation that there are people who are prepared to pay a little more than 40 per cent if it is in the national interest. I think most trade union leaders are prepared to do it. We are not on poverty wages by any stretch of the imagination and we are prepared to do it.

However, it has to be in the national interest, not somebody enhancing his wealth as a result of it. We are not prepared to do it for those reasons.

Mr. McGuigan: Is it \$7 million for the president of General Motors?

Mr. Pilkey: I could tell you something about those people, but I do not have time.

Mr. Chairman: Mr. Pilkey, the free traders are arguing before us that the world is moving into trading blocs and that we are in danger of being left out in the cold if we do not get into a trading bloc ourselves. They are arguing that down the line we will have more streamlined productivity and, therefore, better wages.

The Canadian Manufacturers' Association is going to be speaking to us tomorrow morning. I suspect five years ago they might have agreed with most of what you are saying; I understand tomorrow they will not. Do you have any comment on the idea that we must move in some direction and cannot just stand still?

Mr. Pilkey: I agree with that, but I think it has to be something independent of free trade. I can tell you the CMA does not have unanimity around that position; that is for sure. I have talked to a number of corporate people in the last six months and they are not all free traders. In fact, some of them have told me it will be a disaster if it comes about in their specific industries. That may give you a global picture.

By the way, they have only recently been able to do that because I have talked to some of those people and they did not have a position because they did not have a consensus. They still do not have a complete consensus. It is only recently that John Bulloch of the Canadian Federation of Independent Business has been able to come out that way. He did another survey. He is always floating them out there. He floated another and got a majority. Now he is starting to go down that road.

Mr. Chairman: Maybe there is not a complete labour consensus either.

Mr. Pilkey: There is not a complete one, but it is fairly unanimous. We are about 99 per cent. There is that one we cannot control at all.

Mr. Chairman: What about that argument?

Mr. Pilkey: I do not think we can stagnate either, but I do not think the answer is free trade per se. We have to begin to talk about fair trade and negotiate the rules of the game, as we did with the auto pact. That is always a good example of something that is not free trade and that was negotiated. We have to negotiate in the interests of this nation.

11:50 a.m.

One of the things we cannot do is have a totally integrated market with the United States. First, if it is totally integrated, in my view, some people will profit but there will be more losers than winners. Second, if we have a totally integrated economy with the United States and find out ultimately it is not working in our interest, there will be no way of backing out of it. We will be going to be there for ever, in my view, because what will happen in Canada is we will begin to put in place an economy that reflects our interest in trading with the US.

That means some of the industries we currently have in place are going to go by the board. There is no question about that. They will be gone. We will have some industries in place where we can hold our own with the United States, but we will never be able to terminate that because we cannot get those industries that are gone back in place.

The US could terminate it and remain viable in the process. I do not know what we would do if at some point they give us about two years lead time to tell us the ball game is over. It will be over for us in Canada, too, at that point, because we will have geared all of our enterprises to dealing with the United States. We cannot get ourselves in that position.

Mr. Surich: Let me just add to that. The argument about trading blocs and the tendency towards them is perfectly valid. When you are talking about a bilateral agreement with the United States, you are not talking about a trading bloc. You are talking about the absorption of a very minor economic power into the market area of a very major one. As Mr. Eleen pointed out, that is not the same as the arrangements in the European Economic Community.

If you look at Europe, some of the more successful economies with respect to providings jobs, services and all the things that matter to people in a civilized society are not part of the European Economic Community. For example, Austria and Sweden have not joined. They are managing because they have significantly different internal institutional arrangements.

Mr. Chairman: As I understand it, Austria and Sweden are not part of the common market, but they have a free trade arrangement with it.

Mr. Surich: Exactly. They have made specific arrangements.

Mr. Chairman: That is much like what is being proposed between Canada and the United States.

Mr. Surich: However, they have made specific arrangements with a bloc of a large number of European countries.

Mr. Chairman: It is a much larger community.

Mr. Surich: We are talking about making specific arrangements with one nation at least 10 times as large.



Mr. Chairman: Surely the common market is 10 times as large as Sweden.

Mr. Cureatz: What he is saying is that although it is 10 times larger, it is made up of smaller components.

Mr. Surich: Exactly.

Mr. Morin-Strom: I do not believe Sweden has a free trade arrangement with the common market.

Mr. Surich: It is not fully free. It is more like a sectoral arrangement.

Mr. Morin-Strom: Sweden is in a separate market with the other Scandinavian countries and some of the other smaller countries, Austria and Switzerland, which is a separate arrangement from the common market.

Mr. Surich: It is a negotiated one. It is not a blanket open system. When you think about the thing politically, it is not the same kind of relationship.

If you are talking about bilateral trade with the United States, you are talking about coming to an agreement, opening the borders, with a single large nation, so there is no countervailing power anywhere, and it is one which already owns a very significant part of Canadian industry through the branch-plant arrangement.

To make predictions about the effects on Canada is difficult at best, because we do not really know all that much about the behaviour of those firms. I think it is very likely we would end up as the losers in the sense we would genuinely become suppliers of a very limited number of essentially staple commodities to the American market and we would be supplied with manufactured goods from there.

What happens in turn is you end up with the problem Mr. Mackenzie and others have referred to, namely, a vast number of people who will be displaced. I guess at the end of this process the committee will want to think about what kinds of arrangements you would have to have in place to deal with that. What do you do with three million unemployed, three million or four million people whose skills are irrelevant in the new circumstance?

Mr. Eleen: You will have to revive Mr. Mackenzie's committee on plant shutdowns.

Mr. Surich: Except it will be too late at that time.

Mr. Cureatz: We should be doing that now.

Mr. McGuigan: You would have to have a free movement of people, which means creating one country.

Mr. Surich: I guess we would become the 51st, 52nd or 60th state or something.

Mr. Morin-Strom: I have a couple of questions, but before I get to them, there are a couple of points that were just brought up in this last discussion on which I would like to comment.

With respect to the issue of the need for a trading bloc, it seems to me Canada is a very different case from European countries, Japan and the United States, which are used as examples of large trading blocs because, geographically, Canada is in a totally different situation to these others. Canada is the only industrial country sitting next to the United States. We have a tremendous geographical advantage in terms of feeding that market.

Whatever you talk about with respect to trade arrangements that might be made with the United States, we are always going to have that economic advantage compared to Europe or Japan or other countries around the world in serving that market. Whether we have a free trade arrangement or not, we are going to have natural economic advantages that will lead to the US being a natural customer for Canadian products.

The inevitable result of a complete free trade arrangement would probably be total integration of the Canadian and US economies. The adjustments would be much easier on the American industries than the Canadian ones in industries where the Americans have the economic advantage and are going to take over the Canadian market. We are talking about a market one tenth the size of theirs. They can absorb the surplus capacity at very little cost with no need for major capital expansion and can move in quickly.

On the other hand, when talking about those industries where Canada had the advantage and is going to make a major move to gain market in the US, we are talking about trying to move into a market 10 times as big. An economy and industry of our size making a major move to compensate for what is happening in the other direction requires a tremendous adjustment process. Tremendous capital investment will be required to increase the size of the Canadian industry and the process will take quite a long time.

The reverse of that occurs if and when we would like to get out of a total integration situation. It is obvious the problem is then a serious one for Canada. If we say we want to get out of the total integrated situation, the Americans are looking at losing 10 per cent of their market. That is a relatively minor cost compared to that for the Canadian industries heavily dependent on the major part of their sale going to the United States and even more serious for those who lose the industry completely.

How do we serve those industries where we now have no industry whatsoever and have to build from scratch an industry that does not exist any more in Canada? The risks in integration are totally unbalanced between Canada and the United States.

Mr. Pilkey: You are absolutely right. That is a good point. One I did not make but I should have made was the 10 per cent the US foregoes. That 10 per cent reflects 100 per cent for us. It puts us in a very dangerous position.

Mr. Morin-Strom: Another issue I would like to bring up, separate from those points, is the feeling we get from some people and sometimes from our own committee that there is an impression the worldwide move is towards free trade generally. I question whether that is really the case. Even in the United States I question whether the overall thrust is toward freer trade in the world economy.

The moves for US protectionism have brought a large escalation in the number of countervailing duty cases, a large increase in recent years in restraint agreements with other countries, not so much Canada, but developing countries, and in the US moves towards reopening the GATT agreement, a focus on bringing newly developed countries into the arrangement and putting them under the same tariff requirements and duties that apply to the other industrialized countries. Right now some of the newly developing countries have a large advantage because of the lack of tariff in countries like South Korea.

## 12 noon

I am concerned that the move towards free trade has been engendered by multinationals, in particular those who are virtually above the direction of any particular country, and that the claim that we have to create a more internationally competitive market is becoming a Holy Grail being sold to us by free-enterprise economists and the leaders of these multinationals.

I wonder if the labour market is concerned about the move to the use of labour in newly developing countries, Third World countries, and its implications in terms of the arguments that we have to bring down our wage levels and benefit packages to be competitive, that labour costs in North America, particularly among blue-collar workers, have to be brought down to the lowest possible denominator and that a move towards freer trade across the world scale is a move by the multinationals to say our wages should be brought down to the lowest possible wage level they can find around the world.

Mr. Surich: I think that is nonsense at a whole number of different levels. It is true that it is very inexpensive to build a Hyundai Pony in South Korea and to sell it in Canada because there is no duty on it and because it is from one of the newly industrialized countries. The reality is, however, that those people over there, who are working for very low wages, with very limited benefits and a very short life expectancy, are living in an environment that Canadians, Americans and Europeans do not consider to be very civilized. More important, none of them would be working unless people were earning the kind of wages that allow them to buy the cars over here in the first place.

There is a false understanding of what is involved in a consumer economy. A consumer economy depends on wages being high enough to allow people to live decently and to buy products. If the manufacturer can produce them somewhere else for a whole lot less, that is only possible as long as in the developed countries the workers and middle-class people are able to generate the incomes to buy the products.



Yours is a totally self-defeating argument. You could turn it around and say workers in South Korea should have the capacity to buy the cars they produce. That means they ought to earn wages similar to ours; otherwise they clearly cannot. So the process ought to be directed at improving working conditions, wages and benefits in those places rather than to try to beggar ours.

Mr. Pilkey: We ought never to get into that kind of game either. The reason we ought not to get into that game is that it is never-ending. Let us assume for a moment there is a jurisdiction in competition with us. I am making a hypothetical case now. Their wages are \$3 an hour less than ours, so we reduce our wages by \$3 an hour to meet that competition.

What guarantee do you have that they are not going to reduce it by another \$2 to beat you? You are getting into a never-ending game. Nobody is going to win that one. It will get to the point where nobody can buy the products they produce. The standard of living will be eroded rather dramatically. Making that sort of effort is a no-win game.

To give you a prime example of that, and I am old enough to remember it, during the Depression, when wages were 50 cents an hour, there were people coming to the gates and saying, "We will do it for 25 cents an hour." That did not solve the Depression. The only thing it did was exacerbate it. It made it worse rather than better. If we could have doubled those people's wages and given them \$1 an hour, things would have begun to pick up and improve, but we did not do that. It got so severe that there was only one thing that pulled us off the hook, the Second World War.

I remember that rather vividly. I was a kid but I remember what went on during that time. It was not a question of lowering the wages to get us out of an economic crisis; it only compounded the thing. That is exactly what would happen here; it would only compound it. If we have problems, try that one on for size and we will have more.

Mr. Eleen: I was in Japan three years ago and found trade unionists and industrialists complaining that some of their industry is going to low-wage areas. The people making the Pony will eventually have the same complaint because South Africa will probably be producing cars at a lower wage than the Pony, if things stay the way they are, which I hope they do not.

Mr. Morin-Strom: Can I go on?

The Vice-Chairman: Yes.

Mr. Morin-Strom: On the issue of industrial strategy, one of the problems is that we really do not have an industrial strategy. Relating back to your example of the great depression, you suggested that the Second World War brought us out of the depression. From that perspective, you can take it that governments stimulated the economy by spending more than they had or were taking in.

Prior to the war and during the war itself there was considerable spending to produce armaments and get the economy rolling. An industrial strategy that saw the economy moving and growing would perhaps make some sense for Canada.

Since I became a member down here, I have spent a lot of time in Toronto. It disturbs me when I see downtown Toronto booming. Office complexes, condominiums and apartments are going up like mad. In my community up north, in other outlying communities and industrial areas generally, you do not see that kind of growth.

It seems to me we are seeing a move towards companies providing more white-collar jobs in the centre of Toronto. Services are growing from multinationals, but the blue-collar jobs that actually produce are exported to Japan, Korea and Third World countries. The net result is that we are losing our share of the production jobs in terms of the overall trends in unemployment. We may be gaining in white-collar jobs, but we seem to be losing in the blue-collar area.

Mr. Eleen: They are mostly consultants in Toronto.

Mr. Morin-Strom: It is better than our service industry growing up.

Do you think the government could be doing more with respect to the direction in which Canada is going to ensure that we get a better share of jobs?

Mr. Pilkey: If you look at the back pages of the orange, yellow or golden rod document, we made some comments on some of the things that should be done in Canada. They would be better advised to look at those things and spend some time working out a strategy rather than a free trade philosophy. If we spent more time doing that it would be much more productive for the Canadian economy and Canadians.

The Vice-Chairman: I sense that we have arrived at the end of the questioning. It is 12:10 p.m. Are we ready to recess?

Mr. D. R. Cooke: I think so. Thank you very much, Mr. Pilkey and members of the federation, for assisting us today. We appreciate it very much. It is all going into the cauldron.

This afternoon I want to remind members we will be hearing from Mel Watkins. After that we will have a meeting in which I hope we will give the researcher some direction on the drafting of our initial report.

I have a Workers' Compensation Board hearing at one o'clock, so I may be a little late, in which case the vice-chairman can start the proceedings.

The committee recessed at 12:10 p.m.

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Publications

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, JULY 31, 1985

Afternoon sitting





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LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, July 31, 1985

The committee resumed at 2:15 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

The Vice-Chairman: We have all parties represented so I will call the meeting to order. Professor Mel Watkins from the University of Toronto is here to present his views. We will turn the proceedings over to him. We may occasionally interrupt, although it is your prerogative whether you would like to finish your talk and then take questions afterwards.

MEL WATKINS

Mr. Watkins: I am in your hands; it is whatever you would prefer.

I appreciate very much this opportunity to appear before the committee. This is a very important issue for Canadians and for Ontarians. I sense that the position the government of Ontario takes on this question may well turn out to be decisive in what ultimately happens.

I have some prepared remarks so let me begin by going through these notes.

The notion of free trade is coming to have a variety of meanings in the Canada-United States context. The government of Canada discussion paper, How to Secure and Enhance Canadian Access to Export Markets, issued earlier this year by Mr. James Kelleher, federal Minister for International Trade, set out four options--three free trade options and the status quo.

In the present language of official Ottawa that appears to want to do anything to avoid using the actual words "free trade," the three free trade options are the sectoral option, which is free trade in a specific sector or sectors of the economy such as automobiles or petrochemicals; the comprehensive option, which is an across-the-board, bilateral free trade arrangement; and the so-called framework option, which is creating an institutional mechanism to improve Canada-United States commercial relations.

Actually, the discussion paper also talks about another possibility, which it calls the functional option as in an agreement on government procurement policies. The Kelleher paper puts that under the sectoral option. I regard it as an aspect of the framework option for purposes of my discussion.

We have been repeatedly told in Canada that the preference of the American government is for a comprehensive agreement or a free trade area. Originally, in the days of the Trudeau

government, the Canadian preference was for the sectoral option along the lines of the auto pact. We are now told the United States is not interested in any further such arrangements and may even insist that we forgo the production and, hence, job guarantees that are built into the auto pact in order to negotiate a comprehensive agreement. It is clear we Ontarians should be intensely concerned about that possibility, given the centrality of the automotive industry to our economy.

The preference of the Mulroney government between the comprehensive and framework options is uncertain. The discussion paper issued earlier this year seemed to lean in the direction of the framework agreement, but the more recent federal government green paper, the one called Competitiveness and Security: Directions for Canada's International Relations, the document the federal joint parliamentary committee is having hearings on, worries that a framework agreement would be insufficient to guarantee access. It now seems to lean more towards the comprehensive option.

What manifestly lies behind all the options is the fear the United States will go protectionist against the world, including Canada. We must be candid and recognize that this and not some grander purpose is why this issue is now on the agenda of politics in this country. We have let ourselves become highly dependent on access to the American market and we are now panic-stricken at the prospect that the United States will arbitrarily deny us that access. In the event the United States puts up a wall, we want to be inside that wall rather than outside it.

2:20 p.m.

We might say it is wholly understandable that we should wish to do that. In effect, we are asking to be exempted from arbitrary changes in the rules of the game by the United States. Indeed, in an important sense it would mean returning to the relationship that existed between Canada and the United States prior to 1971. That was the era of so-called exemptionism. It was called that because Canada was exempted, albeit after special pleading in each case, from American measures such as the interest equalization tax of the early 1960s or the directives to American multinational companies to repatriate more profits under President Johnson in the late 1960s.

That period, which also included the acquiescence of the United States to bilateral sectoral arrangements in autos and arms that were special to Canada, was itself unilaterally ended by US President Nixon in 1971. This caused Canada to move in a more nationalist direction in the 1970s with the establishment of the Foreign Investment Review Agency, for example, and ultimately the national energy program. The Reagan administration then took strong exception to this route.

We are very vulnerable to what happens in the United States and we debate these issues largely because the United States puts them on our agenda. The result is that now to get the desired exemption from US protectionism we are told we have to accept a further and massive dose of continental integration, both economic



and political. The results would be, as I hope to demonstrate, uncertain economic benefits and certain political costs.

None of the three free trade options can survive the dual tests of desirability and feasibility, yet the severity of the present economic crisis in Canada makes the status quo unacceptable. That disposes of the federal government's four options, but there is a fifth option. It is to move to secure the Canadian market for Canadian producers, to use access to the Canadian market as a bargaining chip to get the multinationals to produce more in Canada, to enhance domestic content arrangements and, in effect, to put in place an industrial strategy based on greater self-reliance and less dependence for Canadians.

I urge this committee not to follow the example of its federal counterpart, and you have more time at your disposal so this may be possible, and to devote as much attention to this self-reliant option as you do to the free trade options.

In doing that I refer you to the existing publications, or at least some of them, of the Science Council of Canada and of the Canadian Institute for Economic Policy, notably the study by my colleague, Professor Abraham Rotstein, titled Rebuilding the Canadian Economy. I also refer you, and perhaps this was already done this morning by the Ontario Federation of Labour, to research done by the trade union movement on this question of alternatives, given the central concerns of the trade union movement with job protection and job creation.

Let me now try to consider more carefully the pros and cons of each of the three free trade options. The sectoral option has the great advantage that it permits guarantees for Canada. In that critical sense it is more evidently a variant of managed trade than literal free trade. I say that because one sometimes hears the auto pact case cited in favour of bilateral free trade arrangements. That is inappropriate. We should understand that pact as an example of managed trade rather than of literal free trade.

Even sectoral arrangements such as those in the auto pact are not without their limitations. Another colleague, Professor Stephen Clarkson, has spoken with this committee. Let me quote from his excellent study, Canada and the Reagan Challenge, on this question. He writes: "The sectors of Canadian industry that have experienced modified forms of free trade--automobiles, defence production, farm equipment--have not produced economic salvation. They have generated technologically dependent, managerially backward and economically weak industries that provide a cautionary, rather than exemplary, experience."

That the central arrangement can now be seen as the best and only tolerable free trade option tells us much about the severe limitations of the other two options. The central option tends to yield a pattern of continental integration where there is Canadian production, but it is of a stunted, truncated nature. That is what you find if you look at the consequence of the auto pact or the defence production-sharing agreement.

Under the other varieties of free trade, there are no guarantees of Canadian production. Where it did continue, we would possibly see the truncated pattern that exists in sectors integrated under sectoral arrangements. The best we can hope for from these arrangements, and it would be too much to expect, would be what we get under the existing sectoral arrangements.

The consequences for economic growth in jobs are fundamental to an evaluation of the two main bilateral free trade options. Canada, like much of the world, is at present in the grip of an economic crisis that is manifesting itself as a crisis of unemployment with much misery and suffering. The situation is intolerable. I am sure we can all agree that it cries out for a solution.

The proponents of US-Canada free trade hold out the promise that by securing and enhancing our access to the American market, new export opportunities will be created for Canadians that will facilitate economic growth, improve our standard of living and create those desperately needed jobs, at least in the long run. I suspect that the willingness of many Canadians to tolerate free trade with the United States hinges on whether jobs would be created and how soon they would be created.

Yet we are here discussing free trade not because of those grand new possibilities but because of US protectionism and our fear of losing the access we already have to the American market. That is fair enough, but it means we should be chary of loose talk about large economic benefits. The actual scenario being talked about sounds more like containing damage or minimizing economic costs.

The rationale is to secure trade. If it can be enhanced, that will be fine but it will be a bonus and is not thought necessary to justify the exercise. We are not talking necessarily about increasing the standard of living and creating jobs; we are talking about protecting the standard of living and protecting jobs. This is not a solution to the present economic crisis and to the unacceptably high level of unemployment, but rather a way to keep them from getting worse.

It needs also to be pointed out in this regard that even those who see increased employment for Canadians under free trade with the US see it as a long-run possibility and concede considerable job disruption and the risk of higher unemployment in the short run. That is the main thrust of many of my orthodox colleagues in economics.

It is distinctly possible that the chief discernible effect of US-Canada free trade for the foreseeable future would be to exacerbate the existing crisis of unemployment. I am sure the federal government can be counted on to say it will do its best to mitigate these effects. Governments always do that. I think it more reasonable to insist that the federal government first deal directly with the problems of slow economic growth and high unemployment. The pursuit of free trade with the US is not such a policy in any immediate sense but rather an evasion of such a policy.



What of economic growth and jobs will there be in the long run? The honest reply has to be that there literally are no guarantees and that we are just as likely to end up worse off as better off. It is true that members of my profession in economics are often found in the ranks of the proponents of free trade alleging significant economic benefits, but there have always been doubters and dissenters among economists about free trade. I want to talk about that for a moment because there is a danger that economists will be seen simply as people who legitimize arguments in favour of free trade.

No less an economist than the great John Maynard Keynes published an article in 1933 on the occasion of the last great economic crisis, an article titled National Self-Sufficiency, in which he questioned the virtues of the then existing extent of economic integration.

2:30 p.m.

Economic historians, who are another variety of economist and who look at longer historical patterns and records, find no clear-cut relation between free trade and economic growth. Some have claimed the converse. The great classical economist David Ricardo used as the example of his famous law of comparative advantage with mutual gains from trade England specializing in manufacturing cloth and Portugal in making wine. Economics textbooks still use his example, but never point out the uncomfortable fact that Britain went on to become the workshop of the world while Portugal remained backward and marginalized.

Those who know their economic history could also cite the record of industrialization behind tariff walls, or their nontariff barrier equivalents, of the United States, Germany and Japan, all of whom had high tariffs or their equivalents during periods of rapid industrialization. You might say that countries tend to favour free trade after they have strong and mature industrial structures, rather than before and we have to decide where we think Canada fits on that spectrum.

In Canada, the best description of our economic development has been given by the late Harold Innis in his so-called staples approach. Innis taught that Canada was a hinterland that exported resources or staples to more advanced industrialized areas and that the resulting Canadian economy was vulnerable and dependent. He worried about the limitations for countries on the periphery of simply following the dictates of the market and insisted on a positive role for the state. The thrust of his advice was that Canada should lessen, not enhance its dependence on the United States.

Also, within the economics profession, there are political economists who look behind markets to the underlying interests of capital and labour. In the contemporary world, they see not so much the harmonies of the market as conflicts between capital and labour, where capital is the mobile corporation that treats the world as its oyster and labour is immobile people rooted in communities, including national and regional communities. They



understand why workers and their unions tend to doubt the virtues of free trade and they share that doubt.

To the extent there are gains from free trade--to use the language of the economist--we cannot be sure how these gains will end up being distributed. It is evident from the persistence of regional disparities within countries that are by definition free trade areas that a free trade area is not a universal panacea.

To take another example, Britain joined the European common market in 1973 to get access to the bigger continental European market, but that has been to slight avail and the British economy is being kept afloat by depleting North Sea oil.

The American market that we would get better access to is one whose centre of gravity has shifted permanently southward--or at least for an indefinite period of time. With the northern American states themselves disadvantaged, a Canada yet further north is not well situated. As well, access to bigger markets matters only if economies of scale matter, but there is evidence that in the era of microelectronic technology those economies of mass production matter less, not more than they did.

The federal government may be deceiving itself and the rest of us if it believes free trade with the United States will solve our very real economic discontents. The 1980s have been the era of so-called supply side economics, of letting the market work, of policies that I think have generated few economic benefits and many social costs.

The notion that our economic salvation lies in access to the external American market might be seen as a colonial-minded version of the naïve faith that markets alone will work magic. For my part, I would read the historical record for Canada and elsewhere as demonstrating rather than it customarily takes positive government policy to create and sustain growth. I will argue in a moment that it is precisely our capacity to have such policy that would disappear in the name of free trade.

Professor Fred Lazar, an economist at York University, after citing Canada's notoriously poor productivity and research and development performance, points out that this has persisted in spite of successive rounds of tariff reduction since the Second World War.

Lazar concludes and I quote: "If the technological capacities, the marketing and managerial skills and the distribution networks of Canadian companies are underdeveloped, then there is no reason to share the optimism of proponents of the free trade option. A free trade arrangement by itself is not likely to lead to the development of these important capacities and skills."

Advocates of bilateral free trade like to appeal to the virtues of competitiveness. It is even the first word in the title of the federal government's green paper, but there is a dark side

to this market rhetoric which we have seen under Prime Minister Thatcher in Britain, under President Reagan in the United States and, here in Canada, under Premier Bennett of British Columbia.

It is the use of government policy to make the economy "competitive" by driving down wages and smashing unions, by cutting back on social services and environmental protection and so on. A single North American market would greatly increase such pressures in Canada because companies would have even greater freedom to decide which side of the border to be on than they have already.

Not only are our economic benefits uncertain under any circumstances, they are especially so if the political capacity to create them is itself being undermined. That is the danger Canada faces if we go the US-Canada free trade route.

A careful reading of the federal government papers is revealing in this regard. The discussion paper tells us, with respect to a comprehensive agreement: "Nor would an arrangement necessarily entail changes in other policies which affect trade, such as monetary, taxation, labour, regional development, investment or competition. It could, however, accentuate the pressure on Canada that is inherent in the close Canada-US economic relationship to ensure that Canadian policies in these and other areas did not place Canadian manufacturers, resource and service producers, farmers and fishermen at a competitive disadvantage vis-a-vis the US."

The more recent green paper, which Canadian policy-makers will need to take account of, says with respect to a new trade arrangement, "There are potential consequences of a more liberalized trade environment for such areas as taxation, occupational safety, regional development, industrial incentives and environmental regulation."

It seems to me these are startling lists, sufficient in themselves to give pause.

The phenomenon at issue here is what economists call harmonization. That is, under free trade arrangements trading partners align or harmonize their policies. One of the tricky matters, under the best of circumstances for any country concerned, concerns the maintenance of its sovereignty and a distinctive political culture. It may be a recipe for disaster when one country, like the United States, is big and politically conservative and the other, medium-sized and politically moderate, like Canada. The outcome could then be the spread of the precepts of neo-conservatism and of pro-market, pro-American policies and the demise of indigenous Canadian policies at both the federal and provincial levels.

Professor Rotstein has written in this regard: "The price for the secure access to the American market, on which we are so intent, is a silent American presence at the table of virtually every domestic negotiation and decision that we shall make in the field of industrial policy."

I had occasion recently to appear on a platform with the distinguished Canadian playwright John Gray. After I had described the process of harmonization, Mr. Gray said that he did not know much about economics or politics, but he did know something about music. He said it sounded like the US would call the tune and Canada would provide the harmony.

I reject the logic of those who conceive that there will be political costs for Canada under bilateral free trade with the United States, but insist there will be economic benefits anyway. It seems to me that it requires heroic assumptions to imagine that there will be political benefits to Canada in the sense of an enhanced capacity to formulate policies.

Orthodox economic studies, which so frequently allege economic benefits, are frauds because they falsely separate the economic and the political. They fail to see that the process of adjustment, which all agree must take place under free trade, is likely to have a positive outcome only if it is facilitated by positive policy.

2:40 p.m.

We are always told that free trade creates winners and losers, but, I presume, no government will simply sit back and casually watch that happen, doing nothing no matter what the outcome. Is it not rather the case that winners emerge out of a creative interface between business, labour and government? In practice that means positive government policy.

To quote Stephen Clarkson again, he succinctly described the bind in which Canada finds itself. In his words, "The price for admission to the American market would be the economic policies required to put Canadian industry in a position to compete there."

It has long been understood that comprehensive free trade arrangements can strain the policy-making capacity of countries in a variety of ways, both de jure and de facto, but the so-called framework agreement may be even more insidious in its effects on Canada.

What is evident in recent cases where the United States alleges unfair trade practices by Canada and threatens countervailing duties, is an American intention to get us to stop what they call unfair trade practices. The tendency in Washington is to regard almost anything which other countries call policy as a market imperfection or subsidy which is unfair and must go.

If you saw last Tuesday's newspaper there was a wire story which reported that the federal Secretary of State for External Affairs, Joe Clark, said in a speech in London, England that US protectionism was a serious threat to Canada and a new bilateral arrangement was needed. The story then proceeded, "In Halifax, a US politician appeared to support Clark's views, saying that Canada must negotiate freer trade with the United States or face a wall of protectionist measures."

Representative Billy Tauzin, a Democrat from Louisiana, and



a member of the House of Representatives commerce committee, also said, and I am still quoting this wire press story, "Atlantic Canada, with its many subsidized industries, would probably be hit hard in any trade agreement." That is a revealing statement from the American side.

This is harmonization with a vengeance. It threatens to be the real agenda of bilateral free trade. I suspect that many Canadians think a bilateral trade agreement between the United States and Canada, unilaterally imposed by the United States, which we see as unfair, would protect Canada against countervailing duties. We could say: "Is that not the object of the exercise?" The best informed commentators do not expect this because they say the United States is not prepared to tie its hands in that way. What, then, is really going on here? The answer is, apparently, that the United States expects Canada to play by its rules by getting rid of our policies to which it objects.

This is the road we go down at our peril in terms of the maintenance of a distinctive Canadian way of life. It may be one we are already taking in the aftermath of the Reagan-Mulroney summit in its commitments to harmonize policies between the two countries in areas that range from government purchases to high-technology goods and related services.

We should expect the political cost we would experience under bilateral free trade to be pervasive and not confined simply to the area of economic policy, important though that is. Canada has a recognizable political culture that has withstood deepening economic integration with the United States, but presumably there are limits. It is already difficult for Canada to pursue foreign and military policies distinct from those of the United States. The will to do so might be sapped beyond redemption by the further quantum leap in continental integration that would come with bilateral free trade.

The present issue being pushed by the American government which interests me as a citizen is that of Canadian involvement in a strategic defence initiative with Star Wars. One frequently encounters statements in the media by apparently knowledgeable people to the effect that if Canada does not support the US on Star Wars, the US may not co-operate with us on trade.

Speaking as a citizen, I have to repeat that the possibility we might have to accede to something as horrifying as Star Wars to get free trade with the United States is the most compelling argument against bilateral free trade. If the prospect of free trade with the United States tempts us to commit such a folly, what will its achievement do?

Consideration of the benefits and costs of bilateral free trade for Canada must also take explicit account of the extent of American ownership of the Canadian economy and investment in the United States.

It is widely agreed that the Canadian tariff encouraged American companies to come to Canada and set up branch plants. The tariff facilitated foreign ownership. What will happen under free

trade? Would foreign ownership fall? If it fell, what would replace it? What would happen to jobs? Under free trade, would Canada have to treat foreign capital better so it would stay? Could Canadian governments, federal or provincial, have any policy toward foreign ownership, given American tendencies to define such policies as protectionist?

Significantly, to improve the way toward trade negotiations with the United States, Canada unilaterally further emasculated an already weak Foreign Investment Review Agency and renamed it Investment Canada. This does not seem to be auspicious.

Much is known about the behaviour of foreign subsidiaries in Canada with respect to exports and imports and how that has worked to inhibit industrialization. Data from Statistics Canada show the high propensity of foreign subsidiaries to import from parent companies and government archives enable scholars to document the long history of export blocking by parents vis-à-vis their subsidiaries. How would free trade remove these structural deficiencies, particularly when preceded by the weakening of any policy toward foreign ownership?

With respect to Canadian investment in the United States, the point is made by proponents of bilateral free trade that US nontariff barriers and the threat of further protectionism, encourages Canadian companies that want to sell in the United States to invest there to Canada's detriment. Bilateral free trade, from that point of view, would remove that attraction and therefore be to Canada's benefit.

We may be observing the tendency of successful Canadian-based business to be attracted to the larger American market and to move, partly for reasons of locational advantage, from exporting to production in the United States. That is a phenomenon characteristic of firms independently of tariffs. That tendency might be enhanced under free trade arrangements as more Canadian companies look southward.

There is a kind of rule in economics that says that companies based in small countries which become successful in penetrating the markets of large countries, will find themselves sucked into that larger country. That is a real problem for a small country like Canada.

Mr. Cordiano: Could we ask questions at this time?

Mr. Watkins: I am very close to being finished. I will answer questions.

Mr. Chairman: It might be better to get the whole concept at once.

Mr. Watkins: There is a further aspect of the pros and cons of bilateral free trade that must be confronted. That is the regional dimension which properly looms so large in Canadian discussions. Regional differences, as in attitudes toward free trade, tend to reflect the uneven economic development of Canada with manufacturing mostly serving domestic markets concentrated in

central Canada and other regions, notably the west, dependent on resource production for export.

Historically that has meant the west has paid higher prices for goods produced inefficiently in central Canada behind the tariff wall, while at the same time selling its goods in unprotected world markets. This tends to make free traders of people, for whom, unfortunately, the world can be asymmetrical. Because tariffs have hurt them, there is no guarantee free trade will help them.

I expect people across Canada to be hurt by free trade with the United States. Canada, particularly western Canada, even with a tradition of positive government at both federal and provincial levels, has remained significantly a resource hinterland now exporting mostly staples to the United States with only limited economic diversification. Canada-US free trade would put Canada even more at the mercy of continental market forces.

It would tend to secure and entrench existing trade patterns including western Canada as a staples economy. Prospects for economic diversification could very well lessen, which is exactly the opposite of what is desired and needed. Any jobs lost in manufacturing in central Canada under free trade will go to the United States, not elsewhere in Canada.

2:50 p.m.

Regional development programs that have benefited the Atlantic provinces in particular, or that have at least limited their problems, risk, as we have already seen, being labelled subsidies or unfair trade practices by the United States.

Finally, it needs to be noted that regions, such as the west, are far from monolithic in their views on free trade, as the federal committee has been discovering, and is discovering at this moment, I am sure, at its hearings in Vancouver. Specifically, the trade union movement has been registering its opposition to that committee wherever it goes.

More and more people today are employed directly in neither manufacturing nor resources, but in the service sector, and futurists like to tell us that is where the action will be in regard to jobs. The United States knows that and that is why it is pressing everywhere for free trade in services, in financial services, advertising, engineering companies, management consultants, computer service bureaus, etc. Canada and all of its regions could face serious job losses here.

Let us go back to the point of origin of the present debate here in Canada about free trade, which is the threat of American protectionism and ask why the United States is making these threats, or why these threats are coming out of the United States. They abound because the United States insists, as we have seen, that its major trading partners, including Canada, engage in unfair trade practices. The United States says that is what countries, such as Canada, are doing.



Yet economic commentators inside and outside the US overwhelmingly agree that the real cause of American protectionism is the much overvalued American dollar, which is cheapening the imports for American consumers and playing havoc with American production. The overvaluation is the result of a bizarre mix of American policies and practices, massive arms spending, tax cuts, a large government deficit, a large trade deficit, high interest rates, and large capital inflows into the United States. But rather than put its own house into order, the United States prefers to pretend that the problems of American producers result from the policies of other countries that should put their houses in order.

This is not a stable situation. The United States cannot get away with its economic mismanagement indefinitely. We would expect protectionism should wither as the American dollar ceases to be overvalued and we should note that the American dollar has been declining recently. There is a clear risk here in Canada we will tie ourselves indefinitely into a binding bilateral arrangement in order to escape a protectionism that is ephemeral.

In the post Second World War period, the United States has preached multilateralism to the world and Canada has followed suit. The US now believes its access to world markets is being impeded by other countries' national policies, so it threatens to abandon multilateralism for protectionism. In the face of that threat, Canada is attracted to making a special bilateral deal to get an exemption from that policy. But the fundamental American interest remains in its version of universal free trade. So one reason for its interest in a bilateral arrangement with Canada is the hope that it can parlay that back into a new round of multilateralism.

Canada's role would then be to provide an example for the world, but were things to happen that way, we would have disarmed ourselves of policy instruments while gaining no long-term special or preferential access to the American market. At the same time, the United States massively subsidizes its companies under the guise of the arms race, notwithstanding its free market rhetoric, the United States has a potent industrial policy that is run by the Pentagon. The United States does not mind if its allies, such as Canada, spend more on arms and emulate it in that regard, rather it encourages that. That option, wasteful and immoral as it is, risks becoming ours as part of that leap in North American integration that would come with bilateral free trade.

The thrust of my remarks then is that if the United States moves to protectionism, Canada should try for exemptions, but not at any price. If relief cannot be obtained, this would strengthen the case that can be made for building a less dependent and more self-reliant Canadian economy. We are one of the world's major importers of manufactured goods, both in the aggregate and on a per capita basis. Canada needs to secure and enhance its own market for its own domestic producers. We need to move along an indigenous path to comprehensive industrial and resource policies, if possible under joint federal-provincial auspices.

I would urge the Ontario government to take a leadership role both in opposing bilateral free trade and formulating such new policies.

The Vice-Chairman: Thank you, Mr. Watkins. Before we proceed with questioning, I pointed out yesterday we gave an imbalance of time to the parties and I think we want to avoid the formalities of allocating time; that brings a certain structure to the committee we would prefer to avoid. However, I will make the observation that some of us tend to argue with some of the witnesses. In my view, our job as members is to extract as much information as possible, because looking at the people we have had in the last few days--including today of course--they have been of tremendous quality and knowledge and we should be getting as much from them as we can and then argue among ourselves when we decide on conclusions. I just throw that out as an observation.

Mr. Taylor: The other aspect, Mr. Chairman, is with respect to speech-making. We often hear a question to which the preamble is a speech.

The Vice-Chairman: Yes. We all have a right to put a short statement on the record, because we want to be able to show people back home what our views are, but that should be a short statement and not a speech, as Mr. Taylor points out.

Mr. Ferraro: We have to quit being politicians, then.

The Vice-Chairman: We are all politicians; some of the people who come as witnesses are politicians, too. With that bit of admonition, I will turn it over to Mr. Cordiano.

Mr. Cordiano: I would like to make an observation and perhaps follow up on this item. In the discussion of free trade, it seems to me there is a question of political costs in entering into a comprehensive trade agreement with the United States. On the other hand, the same question applies to not entering into free trade.

In the past, there have been political costs to this country when we were not complying with certain American wishes. As Canadians, we have to determine or decide what political costs are viable for this country. There is no doubt in my mind there are always political costs in dealing with the United States. It seems there is a question of degree.

Mr. Watkins: I agree completely; you have phrased it very well. It is clear that all countries, even large ones, are in some important senses constrained as to what they can do in these kinds of interdependent worlds, and Canada is not one of the large countries in that sense.

It is also true that Canada has become not only interdependent, but dependent on the United States. No matter what we do, that dependence is there and we are constrained in that sense. We can see now, obviously without a bilateral free trade arrangement, we are very vulnerable to things that happen in the United States. Our policy makers have to worry about it in the

sense that, if they do not agree with Mr. Reagan on something, what are the consequences?

I agree you cannot change that kind of situation. I see Canada as always having been a peripheral nation in that sense, and I suppose we shall be for the indefinite future. There are severe constraints within which we operate. My worry is we will go too far at some point. We always have to recognize we live next door to the United States and there are many benefits as well as costs in that. However, we also always have to worry that we do not compromise our sovereignty beyond repair.

My concern is this kind of bilateral free trade arrangement could be the kind of step which would do that irreparable damage. I cannot be certain, but that is my fear.

3 p.m.

Mr. Cordiano: There are two questions, the economic and the political. I see those as interrelated, but at the same time there are different constraints on those areas.

As we have seen, the Americans did not favour either the Foreign Investment Review Agency or the national energy program. We have seen the dismantling of those programs. There is the question of competitiveness. My contention is companies that tend to be dominated by foreign interests tend to be less competitive on the international markets. I do not know if we can prove that. In this committee in the past I have asked for figures on what these companies are doing and how competitive they are compared with largely Canadian-owned companies. It would seem we have to put forward that sort of question.

Are we going to become more competitive if these companies are Canadian owned? Or will we be less competitive as a result of capital inflows of foreign interests into this country which take over, or essentially still have, the bulk or the lion's share of investment in this country?

Mr. Watkins: I alluded to this in my presentation. In Canada, because of investigators working for the government and the universities, we know a great deal about the behaviour of foreign-owned companies. We have a lot of foreign ownership in Canada, and we know a lot about how those firms behave. Dr. Purchase talked a little about that when he was here

There are certain structural problems that result from the extent of the foreign ownership we have in Canada. I would infer from this that, in general, countries must have policies. In this case, the policies must deal with the realities of the extent of foreign ownership. I am not saying that should go away. I am saying that multinational corporations are here. How do we tailor policies to deal with that kind of reality?

The bottom line of what I am trying to say today is that I do not see any separation between the economic and political aspects in this sense. I do not see how you can get economic benefits and have policies to make companies do what you want them



to do. I am worried that in the process of going into a bilateral free trade arrangement we will disarm ourselves of those policies. That is the contradiction involved here.

If, for whatever reason, we go down the free trade route, then I earnestly hope that provincial and federal governments will work very hard to make sure they do have policies. And no matter how imperfect those policies may be, we otherwise are going to have no control over the outcome. That is unacceptable.

Mr. Mackenzie: Would you accept that if we go the free trade route we are blocked into the international competitiveness battle?

Mr. Watkins: That is what would happen to us. There are studies that show the very large multinational companies have wanted to do away with tariffs for some time, and now want to do away with nontariff barriers. I do not want to suggest that policy could never have some benefits for the world; we have to understand it creates a lot of benefits for those corporations. We ought to worry a bit about that. The corporations want to be as mobile as they can be in deciding where they put production. We have to be realistic.

We can quote many trade union leaders who have said this, and they are worried about it. They worry that when businessmen get together and talk about how to become more competitive they will be attracted to such things as cutting wages or getting rid of certain kinds of environmental protection and so on. The movement towards free trade increases the capacity of companies to exercise that kind of power.

Again, we cannot change the world with respect to the existence of these corporations. I am not arguing everything they do is bad. I am just saying that governments have to have policies. You might even argue that the stronger these companies become, which is partly what we are observing in the world today, the more important it becomes for countries to have policies that will protect their rights.

Perhaps big countries sometimes can afford to take the route of less policy, although it is a misreading of the American situation to see them doing that. If you allow for their arms spending that is not the reality of that country. However, it would be a grave mistake for a smaller country such as Canada to attempt it.

Mr. Mackenzie: My concern is what it does with respect to workers and wages and in what areas we could compete if this great international competitiveness becomes our goal. That raises the other side of the question. Can we survive in today's world with an economy that protects or maintains some of the gains we have made, or some of the principles we understand and accept in this country? Can we do it with a content legislation, a self-sufficiency, import-replacement type of policy? Is there a danger in isolating ourselves too much, or is that mix possible as part of the answer?

Mr. Watkins: I would not want to suggest in any way it is an easy route to follow. We cannot describe the world as you have, inaccurately, and believe we could easily do that.

We might derive some solace going back and looking at the situation that existed a century ago. Britain was the dominant economic power and practised free trade, preached its virtues and was unhappy with countries such as Canada with national policies and tariffs.

We can debate the virtues of that, too, but in Canada we have shown that we can pursue policies which attempt to give slightly more indigenous Canadian content to what we are doing. That was really the intention of the original national policy, to say if countries want to sell in the Canadian market they will have to produce in Canada. Although many of my colleagues in economics would disagree with me on this, my own view as an economic historian is that Canada's national policy was, on the whole, a good one. It is perhaps easier to say that in Ontario than in some other parts of Canada, but we are here so we can.

I do not think Canadian policies are nearly as bankrupt as sometimes seems implied. What we have to be talking about in the 1980s, today, is working out new versions of those kinds of policies. In a world with massive forces of interdependence, I do not think we should enhance those forces. We should try to lessen them and try to take advantage of what little room for manoeuvring there is. The contemporary version of those policies is literally things such as domestic content legislation and so on.

I am a bit of a conservative in one sense, although I would like to see those policies that have stood us well in the past updated and not abandoned. We are abandoning them if we take the free trade route.

3:10 p.m.

Mr. Mackenzie: I have one final question. If we go the free trade route and that locks us into the whole worldwide rat race of competitive productivity, is it a direction we or any country can take without tackling the question of control of distribution? When the driving factor is a combination of international productivity and competitiveness, and that is coupled with the new technology coming on stream in the world today and the ability to produce as we have never produced before, the fundamental issue must be how we distribute some of the benefits. It might be easier to do it within our own context than in a worldwide context, given what happens to most of the weaker countries in the world.

Mr. Watkins: What is true here, and perhaps what we are saying in part, is the domestic market remains very important in Canada. It is important that market not be compromised by intolerable levels of unemployment and a redistribution of income that is adverse to most people.

We have always understood, even people who are content with the main thrust of the developments of the last couple of

centuries, that market forces cannot simply be allowed to function in and of themselves. They may create growth, although even in the 1980s we are not sure of that, but they are no guarantee of equity and they never have been.

Government policies have emerged over long periods of time to deal with that reality. We have to make sure we clearly draw a line. It is not clear we can forever go down the route of something called "international competitiveness" and imagine that we can continue to have policies in any other area. At that point we are paying an intolerable price and that may turn out to be very destabilizing for those societies. Sometimes it would not work if we tried to do it. We cannot wish the state away in those areas, so we have to worry about its integrity.

Some of the discussions about competitiveness I hear from businessmen make it sound as if they think in order to compete with Taiwan, Singapore and so on, we have to reduce our standard of living to some Third World level. This is one of these bizarre arguments that says in order to get rich we must make ourselves poor.

Also, as an economist I have to say it is just not good economics to say that trade is based on comparative advantage. If you live in low-wage countries you do not normally think of the high-wage countries as being disadvantaged. That Third World perspective is more accurate. Everybody understands that a high-wage economy is a good thing, not a bad thing. If we give up on the maintenance of a high-wage economy in order to be internationally competitive, we can never really compete with Third World countries. All it will do is lessen the size of our domestic market and reduce our potential for growth.

In the past year I have spent quite a lot of time on a people's commission out in British Columbia. That is exactly what the BC government policies have done. They have not helped BC sell any more export goods abroad but have reduced the market within BC for BC companies and therefore have exacerbated the situation. I see the BC experience as a good example of the limitations of pursuing that model. It has simply made things worse.

Mr. Mackenzie: I am not sure I could ever be that idealistic, whether I wanted to be or not. Sometimes the only way I can see us accepting the free trade and international competitiveness argument on a broad basis is if I saw it as an answer to more equity in the world's standards of living. I am not sure there is any mechanism that could even give us hope that might happen.

Mr. Watkins: Our decision to make ourselves worse off would not even have the virtue of helping the rest of the world. We would only hurt ourselves.

Mr. Taylor: I am not clear on this whole concept of international competitiveness and productivity Mr. Mackenzie brought together.



It is coming through to me with a message that this is a false goal, that it is not necessary to be internationally competitive--I am talking in general terms as you have talked in general terms--that it is not necessary to be productive. We should have a more self-contained economy. I have some difficulty in fitting that in with what I had perceived until now to be a need to export. If we do not have to export, then maybe we do not have to be competitive except with ourselves. Do you accept the premise that Canada has to export?

Mr. Watkins: I cannot think of what Mr. Mackenzie is getting at. I am not saying Canada and Ontario should not be worried about being efficient and productive. Productivity certainly matters. One of the debates I was trying to allude to in my evidence is whether we think a bilateral free trade arrangement--to go back to that point--would in itself enhance productivity.

I cited in particular from the conclusion of a study by Professor Lazar, and I think it conforms with what many other studies have shown, that maintaining productivity depends on many different things. There is certainly no guarantee at all that the cold shower approach works, that just saying "sink or swim" and we will see what happens, would work. I am not arguing against being concerned about productivity.

On the question of whether we should increase our exports, as an economist, I do not believe that increasing exports is inherently a better thing to do. Is selling abroad inherently superior to selling more at home?

Let us look at the United States. Everybody in the world wants to sell to the United States, so we want to as well. I am struck by the fact we have a very large market right here in Canada and to an extraordinary degree we import all kinds of manufactured goods. If you look at the seven countries, including Canada, which constitute the so-called advanced industrialized countries that assemble at the annual summit, the other six all have industrial structures which are considerably more mature than Canada's industrial structures. The numbers themselves will show that. Of those seven countries, we are the only country that is heavily biased towards exports of staples or resources and towards the import of manufactured goods.

There is not necessarily anything wrong with that as a historical pattern. All I am saying is that right now, in an economic crisis, we must look for markets. The domestic market is just as important to look at and develop as external markets. I am not arguing sheltering so that companies are not going to be productive in meeting those markets.

Mr. Taylor: I am not talking about exporting more. I am talking about the need to export; if you accept that proposition, the need to try to maintain even present exports is implicit in that.

Mr. Watkins: I have no problems with the proposition that we want, in that terminology, to secure our trade. Some of us have worried about the extent of our dependence on the United

States for a long time. One of the things we have worried about is how vulnerable we are. Now some chickens are starting to come home to roost, if I may put it bluntly, and some people are saying, "Let us become even more dependent."

To me that is a bizarre argument. We are highly vulnerable at the moment. We should worry about lessening that vulnerability. My plea is simply to say, in the midst of this economic crisis where we need more markets. I am not objecting to exporting, but I also am not objecting to selling more right here in Canada.

Mr. Taylor: If presumably we are going to maintain exports, would you not agree that we have to maintain our international competitiveness?

3:20 p.m.

Mr. Watkins: Of course. Again, my concern is--and we can see this in something like the softwood lumber case in British Columbia, that there is a real problem that the United States may say that competitiveness consists of abolishing specific programs of provincial or federal governments; for example, that BC would have to have the same kind of forest management or stumpage policy the United States or Oregon has.

I would think politicians would worry about being put in a situation where they have no room to define policies any longer, but simply must accept the dictates of the United States as to what policies would consist of. I worry that Mr. Bennett will do that.

Mr. Taylor: I did not want to get argumentative and do what the chairman said at the outset, but I interpret the US posture in connection with the softwood industry as a gesture of protectionism as opposed to what I was talking about.

Mr. Watkins: Fair enough. But what we are debating is whether Canada will continue to have the same ability to export that it has had in the past. I have no difficulty, to go back to your question, with the point that competitiveness should be about efficiency and productivity.

My concern is that is no longer what the United States is saying when it talks about competitiveness. I am fearful that within our own country we will find businessmen, in particular, who will be tempted to think competitiveness means different kinds of labour legislation, that it means changing the rules of the game in dealing with people. That is what I do not want to see happen.

Mr. Ferraro: Let me ask a supplementary along the same lines as Mr. Taylor's train of thought. If you adopt containment or a more domestic thrust to the policy, one can only conclude then--and I ask for your comments in this regard--that we could have not only the intestinal fortitude to take that approach, but also the financial resources. I am thinking from the aspect of foreign investment. One can argue a distinction between foreign

investment and foreign ownership in Canada. Does Ontario or Canada have that type of supply of energy, both intestinally and financially, to be rulers of our own destiny at this point?

Mr. Watkins: It is very hard to give an answer to the question of what kind of will people have. I myself would believe that Canadians and Ontarians still have quite a distinct political culture in this province and country. Therefore, we have the capacity to work these things out. The financial resources side is a kind of complicated issue. An economist would say, if we are thinking about foreign ownership, that foreign ownership itself is not really fundamentally about that kind of question. I do not think Canadians have ever really been short of--we do a lot of saving in this country. Our banks have loaned all kinds of our money to very problematic Third World countries.

Mr. Ferraro: Let me refer to foreign investment as opposed to foreign ownership, from a standpoint of having the capital to expand, to have research and development, to have new technology to the degree we would want it. Do we have that? Are we capable of generating that type of invesment?

Mr. Watkins: I am not sure if I understand the point. I do not see a key problem as being the shortage of investment capital, if I may put it that way.

Mr. Ferraro: That is just what I am saying.

Mr. Watkins: To go back to a discussion which has long taken place in Canada, there has often been a concern about the institutional mechanisms for mobilizing capital. Going back 20 years or more ago, I was involved in initial discussions on the creation of the the Canada Development Corp. Those discussions were about the instrumentalities that would in effect mobilize capital, tap capital markets, bring it together. I do not claim to be an expert in this area. That is what I understand your question to be about. My feeling has been that in Canada we have come some distance in being more effective in those areas in the past 20 years.

Mr. Ferraro: I was just going along the same lines as Mr. Mackenzie, in that if you are not as preoccupied as perhaps some of us are, or some people who think about exports, enhancing trade and so forth, and you say we should be more domestic, then one can draw an analogy to some degree to the fact that we are financially capable, as opposed to what the feds are saying--some feds, or some people; I do not want to be perceived as fed bashing all the time--and we need foreign investment inevitably to change our posture.

Mr. Watkins: When I hear people saying we need foreign investment, I see that perhaps too ideologically as an argument indicating the private sector as the means to create growth. Here in Canada when we say the private sector, we think private capital will solve our problems and the next thing we say is, "It should be foreign capital." This is a kind of colonial-minded version of faith in the private sector, and I lack that faith. I do not see the evidence it has happened.



I was struck by the fact that after the Foreign Investment Review Agency was emasculated and renamed, the Globe and Mail sent a reporter to Wall Street to talk to businessmen and said, "Now you will be ready to come to Canada," and they said, "No, not necessarily." I do not see any big changes have resulted from that. I think these are exercises, if I may put it that way, in symbolic politics and they have very little to do with actually getting economies moving and creating jobs.

I have been interested in foreign ownership issues for years, and it seems to me when you talk with big businessmen, of course they do not want countries to have rules and regulations, but they live in a world where countries have all kinds of them and they thrive in spite of it.

Mr. Ferraro: In conclusion, can you give me an example of a country in some degree similar to Canada with respect to population that has a better system in operation than reliance on the private sector?

Mr. Watkins: I am not sure how you want to define the analogy.

Mr. Ferraro: You are not convinced. One assumes what we are operating on is a preponderance of private sector involvement, development and so forth. I am trying to say, show me a country that is operating to a greater degree than Canada with a different system.

Mr. Watkins: If we contrast North America, both the United States and Canada, with western Europe, which has a range of economies, whether they be in Switzerland, Sweden, Norway, the Netherlands, Austria or a long list of countries, most of those have performed better than we have in the past few decades by productivity measures. Canada has moved down the scale of where it stands in the sweepstakes with respect to per capita income. The United States has moved down sizeably.

Mr. Ferraro: This is interesting but--

Mr. Watkins: May I just complete my comment. Most of those countries, if you look at comparative data, have larger public sectors than either Canada or the United States, for example. Most of the arguments we hear, particularly those coming out of the United States, are about the virtues of less government and indicate the problems are too much government, too much welfare state, unions that are too powerful and all kinds of things like that, which turn out to be wrong when we look at comparative data.

3:30 p.m.

There was an excellent statement made on that point by Lester Thurow, a very distinguished economist at the Massachusetts Institute of Technology, particularly in a book called The Zero-Sum Society. I think the best we can say is, what businessmen tend to blame for their problems turns out not to be valid; at best we can say there is little or no correlation when we look at the data.

Some countries have high taxes and high growth and other countries have high taxes and low growth. There are not all the relationships people think. If there are, they tend to run the opposite to what is often thought here in North America to be conventional wisdom.

For what it is worth, I think we get into economic crises, in my view, because the private sector cannot perform properly. It then goes around saying that the problem is the public sector is doing this and that to it. Perhaps there is some truth to that, but I am not convinced by it. I suspect if we look at history, to say this rather grandly, we will see these crises are likely to be resolved by governments becoming bigger rather than smaller, more accurate rather than less accurate.

Mr. Ferraro: It is interesting that--and maybe I am going off on a tangent--but in trying to answer my somewhat confusing question, you used the North American to the western Europe context as opposed to saying Canada in reference to another country. Maybe I am reading too much into this, I do not know, but it is--

Mr. Watkins: No. That is a fair point. We are very much part of North America and we are not going to change that. In some sense Canada is somewhere in between being like the United States and being like western Europe. My fear would be that we will lose that distinctiveness and become just a North American society.

Mr. McGuigan: I am just making a comment. At a party about three years ago, we paid Lester Thurow \$9,000 for an hour and a half of his comments. He certainly knows his economics when he can command those kinds of wages.

Mr. Watkins: He has a vested interest in arguing for the virtues of a high-wage society, and I would concur with that.

Mr. McGuigan: For those who did not hear him, he was a fantastic person to listen to. The words just flow out of him and he is very convincing. I think it was \$9,000 we paid him for about an hour and a half.

Mr. Chairman: Who paid him?

Mr. McGuigan: We did.

Mr. Chairman: Good for us.

Mr. McGuigan: I have another comment. You were talking about what might be more or less a temporary problem, the imbalance of the United States' economy, and that they are trying to get us into a permanent arrangement. This is from--I had her name a minute ago--the lady who writes an advice column in the paper, a national columnist.

Mr. Chairman: Ann Landers?

Mr. McGuigan: Ann Landers, yes. She said suicide is a permanent solution to a temporary problem. In listening to you and others, I wonder if we are not creating a permanent solution to a temporary problem.

One of the things that really interested me, and you are the first person we have had here or anywhere who has said this, was that free trade would not be a total advantage to western Canada. I wonder if you would just expound on that a little more.

Mr. Watkins: I should begin by repeating essentially what I said before, which is that is not a case of somebody from outside western Canada saying, "You people all think that, but I will tell you better." There are a lot of western Canadians who are opposed. I do not know where the majority stands and I do not want to; perhaps a majority is for free trade. What we know for certain about the labour movement--I saw it in the paper this morning--is that Mr. Kube of the British Columbia Federation of Labour stated clearly an opposition to the free trade arrangement.

I think it is important to remember, because regional politics are so important in our country, that they are not everything. Here in Ontario at times, I feel we are getting somewhat isolated around this issue. It seems as though the rest of the country wants free trade and we, in our wisdom, do not. I think there are real regional differences; I do not want to pretend there are not. However, there are people in Ontario who want free trade, too.

There are certainly people outside of Ontario and in western Canada who are very concerned. I have not seen Mr. Kube's evidence so I cannot speak directly to what he said. I would imagine, if I were a westerner, that I would be concerned about the amount of unemployment in British Columbia at the moment. In that case where there is 14 or 15 per cent unemployment, considerably higher than here in Ontario, you are certainly looking for some kind of solution to the problem.

We are heavily reliant on these softwood lumber exports. Every day you see that something is bubbling up in Congress that may interfere with that. We are certainly concerned about securing access. You read in the paper that United States officials are saying there may be no way they can even sit down with Canada and negotiate a deal until we accept some kind of cutback in the exports of softwood lumber from British Columbia to the United States. We were told that what we are going to secure has to first be cut back before we can secure it.

In British Columbia's case, and that came up as part of the confirmation hearings with the new US Treasurer, how long will it take for BC to recover from the damage to be done by it if that is part of the deal? I would guess that even BC will not be attracted at all to this deal as it becomes evident that is the price they have to pay.

Even if that price were not one you had to pay, the problem is at what point do you have to worry about economic diversification when you have as much unemployment as British



Columbia? How else are you going to get the jobs that you need? Then someone can say, all right, if we get rid of US tariff barriers that still remain, there is some prospect that we could have further processing of resources before export and we get some kind of diversification taking place around that route.

I guess one could say that in principle, it is possible. Is it not just as likely, or more likely, that you can again work on a set of provincial policies that would encourage further diversification, that would at least be as effective, if not more effective than those. We might get some of that from selling to the United States. Mr. Loughheed, whose knowledge and views I respect, thinks that can happen with petrochemicals in Alberta, although I know economists in Alberta who are not convinced of that. They say, well, Alberta has a pricing system for natural gas and some people in the United States say Alberta subsidizes the petrochemical industry.

If we want to have access to the American market under a bilateral agreement, we go back to harmonization and getting rid of subsidies. We have got to get rid of those subsidies. If we do, will Alberta still be competitive? How many changes do we have to make in the world before we will get access? It is easy to say we will be better off with better access, but what if we had to change many other things in order to get that? That is the concern.

Mr. McGuigan: There is a point I have not heard anyone mention which was brought up when we were talking about getting more domestic processing. I think it is an accepted thing in the industrial world. It is cheaper to ship raw goods than it is the finished product. Do not ask me why, but it seems to be the accepted thing. For instance, it is cheaper to ship grain from the prairie provinces to Ontario and feed the cattle here than it is to feed the cattle there and ship the meat.

When the Ford Motor Co. left Windsor to come to Oakville, it did so on the basis that it was cheaper to ship the parts to Oakville where the market is--the Toronto area is the real market of Ontario--than it was to ship the finished car. So when you do not have those populations in BC or in the prairie provinces--big consumers to augment the market--do they not have a permanent disadvantage that is not going to change if they have to ship the raw product? Do you believe in that theory?

3:40 p.m.

Mr. Watkins: Sometimes economists call these agglomerative effects. They make it sound very grand and complicated, but they mean exactly what you are saying. There are economies that result from being close to big markets. There is a vicious circle involved. If you can get production there, then people will be there, and that is the market. There is a problem in how to break out of that vicious circle.

Another way of putting it, and it is quite relevant too, is that there is a point about a western Canadian interest. I respect people in western Canada who think they will benefit from free trade, but I would say to them: "Look at the states to the

immediate south of you. If you live in Alberta and Saskatchewan, look at the Dakotas or Montana. It is not my impression these are states with really diversified economies."

If you look at the Pacific northwest, it has a more diversified manufacturing base, but at the risk of beating this point to death, it relies substantially on arms contracts. It is substantially a defence-based economy that has been built out there.

I would be tempted to say to people in Alberta who say they would be better off under free trade: "Why do you not look to the states to the south of you in the United States? Have they become developed and industrialized?" The answer is no. Free trade is no guarantee of that kind of diversification.

If we were in a situation where jobs might leave Ontario and go to Alberta, then you would be in a real conflict under a free trade situation, but I feel that jobs would leave Ontario and not go anywhere else in Canada.

Mr. Taylor: Do you believe there should be higher tariffs or more restrictions on imports into Canada?

Mr. Watkins: I am not sure I would phrase it quite that way. I do not have any problems with things like the content legislation in the automotive sector, for example.

Mr. Taylor: That is a special situation, is it not?

Mr. Watkins: It is special because it has been created that way, but there is no reason why it could not be--

Mr. Taylor: I am talking about it being a fact of life. It was negotiated that way.

Mr. Watkins: I am saying we should ask what are the prospects are of generalizing those arrangements? That would be one avenue. I do not know what you would want to call that arrangement. In effect, we talk to the companies and say: "We are a very large market. Canada is really a large market. If you want to produce here, fine, but we are concerned that there is an historic tendency to just produce for the Canadian market in an inefficient way, and not export. Then we have bad balance of payments effects because we are paying dividends and tending to import a lot."

I am not objecting to world product mandates, if companies will do those kinds of things. Companies have been prepared now in some sense to do what I think is the logic of an auto pact arrangement. That is to say that if Canadians consume X percentage of these products, it would not be a bad rule of thumb under a fair trade rule that we should be allowed to produce roughly that percentage. We do not want to put out everywhere. I do not mean to violate all possible rules of letting markets work, but it is not such a bad idea to have some kind of rule like that in mind. It has served us well in the automotive industry. Ontario would be in much bigger trouble now if we did not have that rule.

Mr. Taylor: I understand your answer to my question is that there should be some negotiation for more protection, maybe on a sectoral basis, using the automotive pact as an example.

Mr. Watkins: Yes. When the auto pact first came out, some of us--I think I have already said that the auto pact and arrangements like that are not perfect arrangements for Canada. Everyone who looks at industries such as automobiles, agricultural implements or defence production agrees that we find Canada tends not to be very good on the high-technology side, and there is a tendency toward centralization, at least, within the foreign-owned companies. That is what the science council meant when they talked about this kind of truncated pattern of development. Maybe for Canada that is an optimal arrangement we can work out in this tough world we live in.

I am worried that we cannot even get those sectoral arrangements any more.

Mr. Taylor: That is what my follow-up question is about. I do not want to chip in here, but it is a supplementary. I wonder what might motivate the United States to enter into any such agreement which will make it more difficult.

Mr. Watkins: If we go back and look at specific cases around the auto pact and the defence production-sharing agreement, we can see the circumstances under which those agreements emerged. In regard to the auto pact, by the mid-1960s Canada had quite a serious problem with the extent of the drain on our balance of payments and the job loss that resulted in Canada under existing automotive arrangements. We had the Big Three and we had no guarantees of production in Canada. Canadian production fell very significantly short of Canadian consumption of North American cars.

The United States said: "We do not mind this arrangement. What is the problem?" How did Canada manage to negotiate a better deal? Our negotiators convinced the Americans that if they did not go along with that deal, Canada would move sharply towards protecting its own industry, even perhaps countenancing trying to create an indigenous Canadian industry. The Americans saw sufficient advantages to maintaining their trade that they were prepared to enter into those agreements.

The defence production-sharing agreement is a case where the United States very much wants to sell weapons systems to us. They know we will not buy their systems unless we are allowed to sell something back to them in that area. The whole defence production-sharing agreement flows out of the abandonment of the Avro Arrow in a situation in which the Americans worried that Canada would not continue to buy the weapons they wanted to sell to us. That is a very particular case from which I would draw no general moral.

The answer is that we have to do what we did about the auto pact. We have to say: "If those arrangements are not allowable, then Canada will have to go more clearly along its own path. We cannot afford to continue the economic costs of doing nothing."



That is how the auto pact came about. A lot of people who now praise the auto pact opposed it at one time.

Mr. Chairman: We have heard that this morning.

Mr. McGuigan: I notice you and almost all other economists who have come here have failed to mention agriculture. I do not feel slighted because I am an agriculturalist--

Mr. Ferraro: Yes, you do.

Mr. McGuigan: No, I do not, but there are some great examples in agriculture you could use to bolster your argument. One argument is that we have a good domestic market, yet we are standing here panicking in front of the United States. We ignore the fact that we do have some chips to put on the table, especially our big consumer market.

Despite the fact we are having problems in agriculture now, Ontario has preserved an agricultural market in the face of a very productive area on the other side of the lakes, the Mississippi Valley. The Mississippi Valley not only has rich soils and a better climate, more hours of sunshine, but also fantastically cheap transportation. They move wheat up and down that seaway for 15 cents a bushel. The comparable cost of bringing grain from the west to feed our poultry and hog industry is around 65 cents.

3:50 p.m.

We have a lot of disadvantages in southern Ontario. We are so darn close to that market and so far away from our sources, and yet we have preserved a market here for us, mainly because the agricultural people have said, "We are not going to compete with each other, but we will compete with the world." I think you could pull that out as an analogy of where we can do this in other areas. In fact, we have done that in autos.

You do not seem to take any notice of the fact that one of the engines of economic growth in Canada has been the export of our western grains. We export 80 per cent of our wheat. We are coming into a period of time where it looks as if we are going to lose that. So many other countries have become self-sufficient; India is self-sufficient and China is self-sufficient. The only country that is our major customer is Russia. We have so many other people trying to sell to Russia. China, India and the South American countries are trying to sell to them.

We are not factoring that into this projection of what the future might be. No one has mentioned the fact that agricultural exports in Canada provided a lot of the engine, the capital, the money that was being used to keep this system going.

Mr. Watkins: I certainly know that that has been true historically, and I appreciate the point that it has been true. I did not understand that we faced such bleak prospects.

Mr. McGuigan: We really do.

Mr. Morin-Strom: I would like to bring out a conclusion I have been getting from your conversation, particularly in your opening address today and see if I am on track with your line of reasoning. Basically, it has to do with how the problem of growing American protectionism is being used in this whole argument on free trade.

The advocates of freer trade with the United States are saying that we needed to fight off this protectionism. It seems that the problem of our vulnerability to that protectionism is the result of the dependence of our economy on the United States, the tremendous interconnection between those two economies. In fact, moves toward freer trade between the two economies in the past really have put us where we are today in terms of Canada being extremely vulnerable to actions by the United States government that can have a devastating effect on our economy.

The conclusion really seems to be that moving towards freer trade arrangements and further interdependence between the two economies is going to make us all the more vulnerable to United States governmental policy and restrict our ability to determine our own policy. The risks of protectionism are going to be even greater under a freer trade arrangement, even more so than they are today. In fact, what we should be pushing towards is greater self-sufficiency within the Canadian economy and less dependence on the Americans.

Mr. Watkins: You say it precisely. We are highly vulnerable now. We are highly dependent now. A free trade arrangement risks increasing both the vulnerability and the dependence. I agree with the conclusion you then draw that if we are going to move in any direction, we ought to consider moving to lessening that. That would not be easy, and it would take considerable time to do it.

Mr. Morin-Strom: I would like to bring out another point a little more directly on economic theory and question whether economists have looked at the costs to society of high levels of imports. It seems to me that economists in their theoretical models talk about the private enterprise system. They look at that and do not examine the public enterprise part of the economy and spending on social services such as health and education.

I wonder whether companies that are major importers contribute their fair or reasonable share towards the cost of public services in our economy. Are duties and tariffs perhaps a way of providing an income from importing companies that are not providing tax revenues on earnings within our economy, because they show very low earnings compared to producers here? They are providing employment and there are revenues in the sense of taxes from those they employ in our economy. Is there really a large economic cost to the public as a whole of doing away with duties and tariffs?

Mr. Watkins: I think there is an economic cost in the sense that, if you could efficiently produce more at home, you would produce more jobs here, which you risk foregoing by importing.

The specific argument you are making is certainly one that has been made historically as a case for putting duties on imports. It was quite a standard argument prior to the First World War, when there really was not much by way of alternative tax systems and it was thought to be a sensible way to do that.

It may still be true, but it is a less potent argument today because we have many more ways in which we tax companies. If I were in the import business, I think I would have to say to you, what you should look at, if you want to look at it like an economist, is the value added that is involved. Are importing companies still paying their fair share of taxes on those values added? That would be the test.

I would think they basically do, but what remains so is that value added from imports is a lot less than it would be from domestic production.

Mr. Morin-Strom: It seems to me the value added is not the only point. If South Korea is bringing cars into the Canadian market duty free, and they are using a transfer price which basically nets them out as having no income on their Canadian operations and they employ virtually no one in Canada, there is no value added, they are not paying any revenues to our government. All the benefits with regard to profits, employment, wages, unemployment insurance, if they pay such a thing, are going to the South Korean economy, as an example. Are they not really getting a free ride in Canada?

Mr. Watkins: I suppose an economist would say countries are supposed to pay their taxes where their profits are accruing, as it were. When you talk about transfer prices you are raising an interesting issue about whether the prices charged properly reflect the costs, and that is another kind of question.

I do not want to sound too much like an orthodox economist, but at this point I would have to say if you are importing you, must also be exporting, and that is where you are supposed to be getting the taxes. I would be reluctant to see heavy reliance placed on import duties just for these revenue purposes.

Mr. Taylor: I am sure the purchase of that Pony here would be considered an economic benefit.

Mr. McGuigan: You can make an argument that the auto companies are not serving the low end of the market. There are many people who have \$5,000 for a car, but do not have \$18,000, and you can make a pretty good argument that they are serving that market.

Mr. Chairman: Any other questions? Thank you very much. Thank you, Mr. Watkins, for coming. We are learning more and more each day and we are becoming--

Mr. Ferraro: More confused.

Mr. Chairman: --more confused, but we really appreciate



your input. I am sorry I missed most of it myself, but Mr. Knight caught me in the hall and indicated I had missed a good presentation and I know the questions and answers were good. Thank you very much for taking the time to come.

Mr. Watkins: I very much appreciate the opportunity to come.

Mr. Chairman: Perhaps members of the committee would now like to discuss briefly some of the directions in which we are going. I am not asking members of the committee necessarily to tip their hands to the way they are thinking, because I think it would be a little premature to do that. We have not heard from a lot of sectors in the economy and perhaps some private individuals who wish to talk to us. We still have a great deal to learn.

However, we do have some deadlines ahead of us. We will not be sitting for the next two weeks. We have to give our first interim report in early October, and it is my understanding that takes some time to finally write. It can be somewhat helpful to Mr. Traficante if he had some sense of direction, at least as to structure at this time.

Mr. Taylor: Is it necessary to have Hansard for this discussion?

Mr. Chairman: It might be preferable not to.

Mr. Taylor: There is no point in incurring that expense and whatever goes with it if it is just going to be discussion.

Mr. Chairman: I thought of raising that myself and then I thought I would not bother, but if it is the wish of the committee, what do we do to terminate Hansard for the rest of the day? Do we just go in camera?

Clerk of the Committee: You make a motion to go on in camera.

Mr. Chairman: Perhaps we could have a motion to go on in camera.

Mr. Taylor: I do not know if it is in camera or not, but it has been customary in the past, certainly for committee meetings when we get into this type of discussion where verbatim reporting is not necessary. We have the evidence, of course, for us for future study, but we could just get off the record for the type of thing we are discussing in terms of the report.

Mr. Ferraro: It may be much more truthful.

Mr. Taylor: It is not only that, but it is a report we have to make to the Legislature, and that is the body we report to. The Legislature will resume sitting on October 15, as I understand it. Of course, our report is customarily private until it is tabled in the House; so we should not be indicating publicly what the content of the report will be. I just make that point.

Mr. Chairman: I think that makes sense. Why do we not formally do that by entertaining a motion then to continue in camera?

Mr. Knight moves that the committee moves into in camera.

Motion agreed to.

The committee continued in camera at 4:04 p.m.





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Publications

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, AUGUST 1, 1985

Morning sitting



1  
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From the Canadian Manufacturers' Association:

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Thibault, L., President  
Thompson, T., Chairman, Ontario Division

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, August 1, 1985

The committee met at 10:05 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

CANADIAN MANUFACTURERS' ASSOCIATION

Mr. Chairman: We have a quorum and might as well begin. We are very pleased to have with us this morning representatives of the Canadian Manufacturers' Association. To my right is J. Laurent Thibault, president of the CMA, in the centre is the chairman of the Ontario division, Tommy Thompson, and on my left is Paul Kovacs, chief economist.

Their presentation will take only about 10 minutes and it might be preferable if we let them speak for 10 minutes and then ask questions.

Mr. Thibault: Thank you for the opportunity to discuss this important subject with you. We have a brief statement in order to provide a fairly accurate statement of how we view the issue. I understand we then have quite a lot of time to discuss anything you would like.

Obviously, exports are the lifeblood of the Canadian economy, the engine of growth for job creation, as we intend to show a little later. Without exports, Canadian manufacturing would be very much weaker and Canada's standard of living would decline if our exports declined; the level of real wages we might earn and the number of jobs would decline. That would be a bleak prospect.

This is a basic fact and there has been a growing recognition of the importance of exports for Canadian manufacturing in recent years. The fundamental basis of Canadian industry is that, even with 25 million people, from a manufacturing point of view it is a relatively small market spread out over a large piece of geography, and is not a large, solid base on which to build fully efficient, global manufacturing.

If we do not go for exports, we cannot get the economies of scale we need. In turn, that means higher unit production costs. If costs rise, we are into a downward spiral of declining markets, production and employment. The reality in Canada is quite straightforward: if we allow our exports to be eroded as the price of restricting imports, we will pay a heavy economic price.

This is not new and we have known about it for a long time. Historically, we have always concentrated on developing our natural resources and exporting and selling them, but in recent years we have found that option for Canada as a way to earn our standard of living is increasingly being eroded and cut off, so



that we have to look to the competitiveness and expansion of our manufacturing sector as being of growing importance for our standard of living, our incomes and our jobs.

The growth and nurturing of Canadian manufacturing is particularly important at this time in our economic history. If we look at the post-war period, there has been a clear recognition that the gradual easing of trade restrictions is a fundamental requirement for the growth and development of our manufacturing sector. Our domestic manufacturers can expand their market base through higher exports and this increased volume of production allows them to reduce their unit costs and increase the size of their operations and employment.

10:10 a.m.

With the establishment of the General Agreement on Tariffs and Trade, over the years several rounds of negotiations have led to lower barriers to trade and to various kinds of bilateral agreement, particularly for the United States. All these trends have strengthened manufacturing. Even though at each round there was always a great deal of reluctance and soul searching, their history is quite clear. Increasing the scope for trade has very much benefited manufacturing.

The other side of the coin is also true. As you expand your exports, you have to accept opening your own market. Therefore, there will be a quid pro quo and be some increased import penetration in the Canadian market. However, I think the evidence shows we have given as much as we have taken--in fact better.

Generally speaking, our export performance has been pretty good and in recent years has somewhat exceeded the rate of increase of import penetration. Indeed, in 1980 the value of Canadian manufactured goods exported exceeded imports of manufactured goods for the first time. That established a trend that has continued in the last five years.

There is no doubt Canadian manufacturers have gained more than they lost in the liberalization of international trade over the past 20 years.

The same gains have certainly been passed on to Canadian wage earners. In 1965, of the 1.6 million people employed by Canadian manufacturing, fewer than 300,000 owed their jobs to exports. Put another way, exports provided jobs for about 18 per cent of the manufacturing work force. In 1985, we estimate of the more than two million manufacturing jobs in Canada, some 750,000 or almost 37 per cent exist because of exports. More than 475,000 new manufacturing jobs have been created in Canada over the last 20 years and all but a handful can be attributed to our expanding export trade.

Obviously, this is not universal. Domestic manufacturing industries have not all grown during the past two decades. Some have declined somewhat. That in turn has been the result of increasing imports in some cases. We live in a fiercely competitive world, and not every industry in every country will be

able to compete and grow successfully. There is nothing new in this. It was always the case.

Manufacturing, as we would like to show you by means of some numbers a little later, is going at a remarkable and tremendous pace of dynamic change as markets shift, new technologies come in and because of a whole host of other aspects. These dynamics are not new. What we are talking about here is creating the basis for change in the future. In many ways it will not be very different from change that has occurred in the past.

The trick is to find the mix of government economic and trade policies that will assist Canadian industry, over time, in making the necessary and difficult adjustments to a more competitive global trading environment. I stress the global trading environment concept here. That is what is new and different in this particular round of thinking about trade policy in Canada compared to previous situations.

The question is, how can we meet this reality head on, specifically through of trade policy initiatives? On the basis of careful analysis of costs and benefits, the CMA supports a two-pronged strategy involving:

1. A new round of trade negotiations within the General Agreement on Tariffs and Trade, including continued development of significant offshore markets.

2. Active consideration of how Canada and the United States could enter into a bilateral agreement to secure and enhance each other's market access.

Three elements are present in CMA's support for considering a Canada-US trade agreement:

1. The need for a strategy to cope with strong protectionist pressures in the United States that threaten even our existing access to that vital market.

2. A recognition that it would take at least five to 10 years after the negotiations begin before any tangible results emerge for Canadian industry from a new GATT round--that is a very slow process, if it ever gets going.

3. A hope that any Canada-US trade discussions might serve as an impetus to trade discussions within GATT.

In view of the overwhelming importance to Canadian industry of access to the US market and the strength of protectionist pressures in the United States that currently threaten access and the jobs of many Canadians, the CMA believes an early opening of trade discussions with the US could serve a very useful purpose in securing and enhancing that access.

Our objective of securing and enhancing access to the US market can be attained only at the cost of improving US access to the Canadian market. That has always been true. Under present conditions, a significant freeing up of Canada-US trade will

accelerate the restructuring of a number of Canadian businesses already under way to meet global competition. This restructuring, in terms of both labour and capital adjustment, will be particularly difficult for certain companies and some smaller communities that depend on them.

In the case of other businesses, their ability to compete successfully in a freer Canada-US trading environment will depend on the level of the exchange rate and the removal of government policies that would place Canadian industry at a competitive disadvantage with US industry, of which agricultural policies and interprovincial trade barriers are noteworthy examples.

The benefits of a freer Canada-US trading environment in security of access to a much larger market outweigh these concerns provided we establish policies to address these concerns. Chief among these would be the adjustment policies that would provide the necessary time and support to allow labour and capital to adapt to freer Canada-US trade.

Canada-US trade discussions to consider how we could enter into a bilateral trade agreement should take place, we argue, within four key parameters.

1. The rights and obligations of both countries under GATT should and must be maintained.

2. There should be an understanding that while discussions to liberalize cross-border trade will take place on a broad basis, there will be provisions for exceptions as well as for sectoral arrangements that already exist. The automotive agreement is clearly one that comes to mind. Also, in moving to a freer trading environment, there will be a need for transition periods and appropriate safeguard measures. Normally, these transition periods go up to 10 years. Also, the intent is not to establish a full common market but simply what is known as a free-trading environment.

3. There should be a commitment from the federal and provincial governments to address the policies that would place Canadian industry at a competitive disadvantage with US industry in this freer trading environment and to have in place appropriate adjustment policies to assist labour and capital in the transition to this freer trade environment.

4. A mechanism should be established for detailed and comprehensive consultation between federal and provincial governments and the private sector. Establishing proper consultative mechanisms is critically important. It is the key to the whole process of trade liberalization. I cannot overemphasize that at this point. It is the key because only if Canada's public and private sectors have done the necessary impact analysis as well as thought through and discussed openly the implications of that analysis will we be in a position to strike trade deals that provide a strong basis for long-term creation of jobs and improvement in our standard of living.

If there is one particular message I want to stress it is



this fourth one, the necessity of having a good strong consultative mechanism with industry, the federal government and the people who will be doing the negotiating so we will have their feet clearly planted on the ground in the reality of what companies are facing. Second, we must do a very much better analysis of the economic impact of freer trade. With that process under way, we believe we can ultimately arrive at an arrangement with the US that would be enormously beneficial.

The challenge then is to get our trade policy as well as our other government policies pointed in the right direction, which is to create an environment whereby Canadian industry can be more competitive, attract investment and create the jobs we need in the context of a much more competitive global trading environment. If we are going to compete successfully in a more international environment, then we argue expanding the base of trade with the United States is a very important building block for the future.

In essence, those are the thoughts we wanted to leave with you as opening remarks. We also have three tables of data we could discuss with you now if you wish or get into later.

Mr. Chairman: Thank you very much. A lot of what you said is what many of us are finding as we listen to the representations.

10:20 a.m.

Mr. McGuigan: One question that comes to mind on the very first page is the economy of scale. None of us would argue it is a valid concept. The old rule of thumb manufacturers use is that every time you double production you cut your costs by about 10 per cent. I do not know whether that is still accepted or not.

I have an observation from my own riding of Kent-Elgin, which certainly has a reputation as an agricultural riding. It is not, incidentally, the highest in dollar value because it has cash crops as opposed to livestock, for which the dollar numbers actually get the largest. Certainly the riding is regarded, from a crop standpoint, as the garden of Canada. It came as a bit of a surprise to me, when I began canvassing in my first campaign and then the later two campaigns, how much manufacturing there is in an agricultural community.

The basis of it is that it straddles Highway 401 and, now that we have gone to zero inventory, trucks have such good access to small parts plants. On one end we have Windsor and on the other we have Oshawa, so we are ideally situated. Every small community--towns like Blenheim, where there are about 4,400 people, Ridgetown has about 4,000, even down to little places like Bothwell, with a population of about 1,000--has several parts plants. They are just as busy as can be. Some of them even have night shifts.

It seems there has been a decentralization of manufacturing. The big manufacturers probably do not want to set up great big plants in communities where they become subject to the labour pressures that build in places like Windsor, Oshawa or Detroit. It

appears to me they are not paying as much attention to the economy of scale as they once did.

The Japanese have a different method of manufacturing; they have production units as opposed to the assembly line. We seem to be moving that way. I wonder if we are not placing a little too much emphasis on economy of scale.

Mr. Thibault: That phenomenon you are talking of, the smaller plants and companies, is not peculiar to Canada. This is going on everywhere. If you look at the statistics, you will find that the bulk of our growth in employment is being provided by small plants rather than the traditional large companies. It is a major restructuring going on within industry that is based largely on the farming out. Auto parts is an excellent example of the manufacture of some of these. Even within each of those small plants, the advantages of scale are a tremendous benefit.

What small plants are tending to do is specialize more in a very narrow range of products to try to get that economy of scale rather than make 20 products and a very small quantity of each. This is a very important phenomenon. It is why at the Canadian Manufacturers' Association at the moment something over 75 per cent of our members have less than 100 employees. The CMA has changed itself from being an organization that was known as representing large business to one that basically represents small business. It is a major restructuring of industry that is going on everywhere. I do not think it really changes the economics of scale.

Mr. McGuigan: I do not either. There is a difference in that the concept of the great big plant that manufactured the whole car has faded.

Mr. Thompson: It did everything.

Mr. McGuigan: It is much more decentralized.

Mr. Thibault: Just to support what Tony said, let me give you an example. I spoke to a small manufacturer--he might be in your riding; he is in Stratford--

Mr. McGuigan: No.

Mr. Thibault: Not quite?

He had an interesting experience. He had a machine that was able to punch out metal parts. In going to a machinery show he discovered a new Japanese machine, fully automated, with three or four axes etc., that was able to punch out 28 units a minute compared to his machine at two units a minute. He said, "If I do not get on to that equipment, I am soon going to be behind in technology." He proceeded to acquire that. Now, for any given period that he runs the equipment, he has 14 times as much output. He now needs a bigger market in which to sell the stuff. You get this kind of inexorable logic that as the machinery becomes more specialized, automated and precise, you need a bigger base to support the new technology you need. You get onto that treadmill.

He is clearly looking for exports in order to support that equipment.

By way of explanation of the logic--it is a very small plant by the way, he employs about 40 people--while there is this move towards smaller factories, they are tending to be more specialized. Any given production operation usually requires a fairly large volume to justify and sustain the technology they must have to be competitive in the first place.

Mr. McGuigan: What you are pointing out is the capital cost where the economy of scale comes in more than the actual operation in the labour force.

Mr. Thompson: It is interesting. The Canadian Manufacturers' Association surveys the wishes of its members before taking a policy stand such as the one on this matter. Part of that survey, in this case, was the question, "Do you think that freer trade would enhance your position and allow you to expand?" In Ontario specifically, a higher proportion of small industries said "Yes" than did large industries. We have the support of the bulk of small industry and small manufacturing units in this stand.

Mr. McGuigan: On page 8 you say it is not your intent to establish a common market. I am afraid I am ignorant of the difference between free trade and a common market. I am sure a lot of other people are and I would appreciate it if you would walk us through that.

Mr. Thibault: There are various degrees of trade liberalization. A free market, what is commonly known as free trade, is probably one of the more limited ones. It simply says that commodities will move freely. There are various steps of integration beyond that. A common market is a pretty complete integration. Not only are commodities or products allowed to move freely, but there is total liberalization of capital flows and immigration, and a total integration of the whole economy. We are not talking about that concept. We are talking about what is initially a fairly limited step in the total range of possibilities. The common market is a pretty full integration. It is one step short of complete political integration. We are talking about a very limited concept of freer trading of goods.

Mr. McGuigan: Labour moves freely in Europe then, in the common market?

Mr. Thompson: Not entirely.

Mr. Thibault: There is never any such thing, but in Europe it is intended that people can move freely across borders.

Mr. Thompson: People can move freely, but not labour. They do have guest workers, as they call them, moving in. One thing I would like to emphasize, particularly for the sake of the press, is you will notice we do not talk about free trade; we talk of freer trade. Whereas an eminent gentleman in Ottawa said, "enhancement of trade."



Mr. Chairman: Also you do not say necessarily that you want it ever to be accomplished. You want to work towards it. Are you hedging?

Mr. Thibault: Hedging in the sense of the statement that we know where we want to go, but there are an awful lot of elements that must be put together in order to get there. Realistically, what we are saying now is we must have the courage to get in the process, explore it, do the analysis and see what kind of an arrangement can be made which will be mutually beneficial. We cannot commit ourselves to the ultimate result because I do not think we have done the analysis.

Mr. Mackenzie: There are a couple of questions I would like to ask you regarding page 8 of your brief. Under "discussions to consider how we could enter into a bilateral trade agreement" you say in point 3, "With a commitment from federal and provincial governments, (a) to address policies that would place Canadian industry at a competitive disadvantage with US industry in a freer trading environment." Can you tell us exactly what you mean by that?

10:30 a.m.

Mr. Thibault: I can give you a couple of examples. The submission from the brewing industry made it very clear that if the Canadian government expects them to compete head on with the Americans on a price basis; for example, in the beer industry, they will have to allow Canadian producers to rationalize. The restrictions now are such that to service the market, one almost has to have a small brewery in every province, certainly in different parts of the country, whereas because they do not have those restrictions in the United States, they have huge plants. In many cases, one or two plants could supply the whole Canadian market.

They are saying to the Canadian government, "If you want us to rationalize, become more efficient and go after the US market, this is an example of how you must allow us to restructure and remove those kinds of impediments."

Another industry that has expressed serious concern about its environment as a competitive base is the food-processing industry, which says the restrictions in the food production industry generally create a higher cost structure in Canada. You cannot simply remove the restrictions for trading processed food if you do not allow food processors to have a cost structure at the production end that is competitive with that in the United States.

Those are two examples of the things industry is saying to the Canadian government. It is not just a question of saying, "We will remove the barriers and you manufacturers get out there and swim." They are saying, "We are prepared to face that environment because we think it will be advantageous in the end, but you have to give us the conditions to have a fair game."

Mr. Mackenzie: You are saying they have to be allowed to

close smaller plants and work from larger units, and that can affect employment in a municipality. With respect to food processing, which is not basically a high-wage area, you are saying the plants nevertheless have to be able to rationalize their costs, which means a good part of the price could be paid by workers in their contracts, or by the costs, shift arrangements or benefits that are involved.

Mr. Thibault: There is no question there will be change. At some point fairly soon I would like to get into the three tables we have provided. There is always change in manufacturing. In the last five years, there has been an enormous amount of change with no change in the trading rules. A tremendous amount of restructuring is going on. It has always been that way.

Our manufacturers are saying that if we do not facilitate that process of adjustment, we are going to get locked into uncompetitive manufacturing structures. Then we will lose the whole ball of wax.

Yes, there will be change. I do not think I can tell you in detail or predict what the change is going to be, but a tremendous number of Canadian firms are saying, "We will expand in this new environment." As well there are those who are saying they may have to contract.

Mr. Mackenzie: A number of firms in this country already are saying they want two-tier wage arrangements. The Americans have objected to some of the benefits incorporated into the agreements and contracts we have because they say it gives some of our industries an unfair advantage.

The reason I am raising it with you is because simply to ask the provincial and federal governments to address those problems seems to me to leave a serious question as to just who is going to pay the price. There is an implication in what you said in the statement that the rationalization in industry you are talking about means there is going to be a fair price to be paid by the current work force.

Mr. Thompson: You have to look at the other side of that coin. If we do not put ourselves in the position of being more competitive in trade, in particular with the United States, many more disruptions are going to take place because of failing firms in this country than would happen from what we are worrying about with this cause.

For every plant you quote with this sort of problem, I can quote several that in the past few years have stayed in business only because they have increased their exports to the US from, in some cases, zero to 75 per cent of their production. It has kept them alive.

That is the reality we are faced with. If we do not compete in the global village--as we are fond of saying in the Canadian Manufacturers' Association--we are going to have more of the problems you are worrying about.

Mr. Mackenzie: With respect to some of those problems, I quoted yesterday from a piece by the Shoe Manufacturers' Association of Canada. One of the arguments they are making is that to be competitive they have to reduce their wage and salary costs from the current 26 per cent to 16 per cent. They are complaining about the wages, which happen to be \$7 an hour--a \$14,000-a-year income for workers--as against the 70 cents an hour in some of the countries they are competing with. I am just wondering at what stage this becomes absolutely ridiculous.

Mr. Thompson: That is not United States trade; that is offshore trade. The industries which have that problem are the ones which are competing with the offshore competitors.

Mr. Mackenzie: Many of those offshore industries are owned by, or are a part of, a conglomerate. They are American or, in some cases, even Canadian. There are some fancy arrangements.

The other question I specifically had is in reference to point 4, also on page 8, which begins, "With the establishment of a mechanism for detailed and comprehensive consultations between federal and provincial governments and the private sector." You made the argument very strongly in your presentation that there has to be a good communication and working relationship between industry and government as we go through this exercise. Do you also accept that there should be equal consultation, equal say and equal partnership with labour with regard to the process through which we have to go; that they have the right to raise the concerns which affect them with respect to the whole question of dealing with this? You are asking for it for yourselves, for industry. Do you accept that labour has exactly the same right?

Mr. Thibault: There is no question about that. In fact, one of the best mechanisms in recent years for analysing the problems of given industries was the so-called "tier 1-tier 2" effort that the federal government had in the late 1970s and early 1980s. There was combined representation from both the companies and the labour movement in different industries dealing specifically with the issues that affect their particular plants. One of the things I am observing in Canadian management now is a much greater degree of attention to their human resources, involving, motivating and informing them, as a very important basis on which they will be more competitive and improve their productivity. There is no question about it that the labour movement will be playing and must be playing a very important part in this consultation.

Mr. Mackenzie: I hope you are right. I agree there are some signs that is the case. If your organization has some influence, I can recommend a half a dozen companies to you that need a bit of a lecture from you on that very score. I am thinking of some of the experiences we have had with plant shutdowns and workers and the absolutely appalling attitude we got in statements from top management people in meetings we have had right here and in the office of the Minister of Labour over some of these closures.

The final point I wanted to make is this. You indicate that



there is possibly a majority of small business people who have led your organization to come around to the position you have taken. I suppose there are some reservations with some of the larger industries. There is a split in your organization. I know some of your members are not supportive of your position. Just how high is the percentage that takes the position you have?

Mr. Thibault: You have got into an area which for a broadly based organization, such as the Canadian Manufacturers' Association, becomes very tricky.

Mr. Mackenzie: That was the way you were skating in your time frames and everything.

Mr. Thibault: I am personally confident that what we are saying is a pretty accurate, overall reflection of what the manufacturing community, as a whole, is saying. Clearly, there are some parts of manufacturing that would be in some difficulty. They are saying so and they will want their interests very closely looked at and aggressively defended, which we are doing. I have already pointed to several areas where there are some major problems in this kind of a move.

10:40 a.m.

However, the processes within the CMA are such that having considered all the difficulties, all the negatives and positives, and so on, we generally try to arrive at what is the best overall thrust for manufacturing as a whole, and the future direction. That, in turn, is reflected here. I would hazard a guess that the majority of our members would support the thrust of what we are saying here. Perhaps 20 per cent of our members has some very serious concerns and is saying, "This is going to be very difficult for us." I suppose 10 or 15 per cent could be adamantly opposed. For whatever reason, they just do not feel that is the way they want to go. Overall, after a tremendous amount of discussion in our forums, there is, on balance, a consensus that we should get into this process with the Americans and fully explore the possibilities for opening up trade.

Mr. Thompson: That is essentially why this close consultation must precede any negotiations. We must know absolutely what we are about to bring about by any requests we make, both in advantages and disadvantages. The only way we can have a strong negotiator representing us in this is if he is well informed, well provided with data and knows where to give and where not to give. That is where we have not been strong in the past compared to other countries. Canada has not gone into negotiations well prepared.

Mr. Mackenzie: There seems to be a perception among some of the economists that there are some definite advantages and some of the figures in the size of the trading blocks would indicate that there should be some advantages. But everybody agrees there are also disadvantages and that there are some serious tradeoffs. This is similar to the questions I raised regarding your comments here about the provincial and federal governments taking action to guarantee, in effect, that you must have a better industrial and

labour situation to be more competitive. This raises questions in my mind.

Mr. Thompson: We live in an imperfect world, but we think it will be more imperfect if we do not enhance trade.

Mr. Mackenzie: I have one final point. I have not looked at your figures yet, although I will, but other than the size of the markets and the perception, we have not seen much in the way of hard evidence that the actual gains are there, and they do not seem to be measuring the potential losses in many cases. That is why I would hope that there is a little more hard evidence with regard to what we are actually going to gain before we are forced to make any major decisions.

Mr. Thibault: That is a very good point and it is also one of our strongest points to the Minister for International Trade, Mr. Kelleher. We understand a fair amount of analysis is being done in the government, but we have not seen any of it and none of it has been discussed with industry in this current round of discussion on trade, leading up to the General Agreement on Tariffs and Trade, as well as the discussions with the United States, by the way. So we need to do a lot of homework, there is no question about that.

Mr. Chairman: We are finding that, too. We are taking steps to try and get a better handle on it. Table 1 is rather interesting, Mr. Mackenzie.

Mr. Thibault: Perhaps I might just take a few minutes to just show you some of the data and then we can pick up the questioning from there.

Table 1 is rather interesting. The total manufacturing sector has been increasingly export-oriented and, conversely, there has been an increasing import penetration. On the export side, if you take the percentage of our shipments which is directly related to export and apply it to the employment base, you find that necessarily a growing percentage of our employment is related to export. As you can see, that has been a very steady trend for a long time. Canadian manufacturers have not been sitting on their hands. They have been actively seeking export markets and restructuring, aggressively so in the last few years, again focused on the United States markets in particular. All of which is to say that what we are suggesting for the future is not a drastic departure from the past trend.

You can see that a little more clearly by industry in Table 2. If you look at the left-hand side, every single industry has increased its export orientation. The transportation equipment, first at the top, is directly the result of an explicit agreement with the US on automobiles. However, machinery is quite a remarkable transformation in the industry, literally to an export-based industry.

Pulp and paper has always been high. Primary metals are gradually increasing exports. Scientific and leisure goods are a relatively small industry, but clearly moving to a global village.

Another quite drastic transformation is electrical products, from nine per cent to 39 per cent. Chemicals are moving also. Rubber and plastics show quite a change. Even furniture and some of our more traditional industries have gradually inched up to try to export more.

The quid pro quo is on the right-hand side of the table, where you see that at the same time the imports are increasing. That is simply a reflection of the growing and inevitable specialization as we get out of products in which we cannot compete for various reasons and specialize and focus on those where we can, and in turn, seek to export those.

Table 3 will indicate the kind of dynamics that go on within the manufacturing sector. It is wrong to think of the manufacturing sector as a static bloc and to think that you will lose chunks of it and nothing will replace them. In every industry, the rate of inflow and outflow of firms, and of jobs related to those firms, is quite remarkable, according to this study done for the Department of Regional Economic Expansion.

We are clearly shifting our industrial structure. The jobs are going in a number of sectors and in our traditional sectors where we know, as Mr. Mackenzie mentioned, we have difficulty competing vis-à-vis offshore countries, they have been gradually declining despite attempts to stabilize that situation. What we are doing there, as every country is trying to do, is to manage that change as best we can in a way our society can absorb.

The picture I want to leave with you is of a tremendously dynamic manufacturing sector that has been adjusting over time to changing pressures and is prepared to do so in the future.

Mr. Ferraro: Thank you. I do not mean to get out of turn but it was a supplementary to Bob Mackenzie's question about the percentage of your group that was supportive of the position. You said it was 90 per cent.

Mr. Thibault: It is very hard for us to pin that down because invariably the questions come: "What do you mean by free trade? Is my sector involved? What about the exchange rate?" It is not the kind of question I can give you a very hard answer on but--

Mr. Ferraro: As politicians, we can appreciate the response.

Mr. Thibault: You will find, even if you go down to talk to vertical industry associations where they have some major concern, they are saying, "Yes, we recognize the need to move in this direction but you must recognize our problems." They proceed to ask how we are going to deal with those in the context--

Mr. Ferraro: That is right. My question is a supplementary, just so we get an overall context of where you are coming from. In actual numbers, how many manufacturers does the Canadian Manufacturers' Association represent and can you tell me how many are Canadian owned and foreign and/or American owned?



Mr. Thibault: At the moment we have 3,300 separate manufacturing units that pay a fee. That is a little bit misleading because some of the very larger ones may have 14 divisions and 17 subsidiaries. Our total membership, meaning people involved and on the mailing list and so on is 8,000. Somewhere in between there is the right answer.

As far as the proportion that is foreign owned and Canadian owned, we have never measured that directly but it is approximately the same as the global statistics Statistics Canada provides for the whole manufacturing sector. Our base is large enough to say that and that is about 50 per cent.

Mr. Ferraro: Is foreign or American?

Mr. Thibault: It is about 50 per cent foreign and 50 per cent Canadian.

Mr. Ferraro: Do you know what percentage is American?

Mr. Thibault: The vast majority of those that are foreign owned are American, perhaps 80 per cent.

Mr. Kovacs: I think 38 per cent are American and 12 per cent are overseas and 50 per cent are Canadian owned.

Mr. Cordiano: I would like to ask a question I asked other witnesses in the last couple of weeks regarding the fact that if we negotiated a free trade agreement with the United States, how successful could we be in the next round of the general agreement on tariffs and trade negotiations? Would other countries want to seek a similar trade agreement with the United States? We are entering a period of bilateral deals. Would that not give disincentive to going to a GATT round and less likelihood of successfully negotiating a better GATT round for all the countries involved in GATT?

10:50 a.m.

Mr. Thibault: That is a question which has been discussed in our forums and addressed by the government. We have been assured that in its discussions with other countries such as Japan, the government gets a good understanding of the special nature of Canada's trading relationship. In the same way, nobody begrudges the trade agreement between New Zealand and Australia which was a similar kind of free trade arrangement.

Most people understand that the relationship between Canada and US is quite special. I cannot give you a definite answer as to whether it would affect our eventual GATT negotiations. You can use a bilateral agreement as the basis for extending that, which would have to be provided for where other countries are willing to play the same game. You also have to remember that, for Canada, even with GATT, the heart of the deal is always the arrangement we make with the United States within the broader sort of negotiations. You could argue that not only does it not prejudice our GATT obligation and future negotiations, it could very well enhance them.

Mr. Cordiano: I forget what page it is on, but you suggest in your analysis that we need the US market to build a strong foundation for exporting globally. What incentive would there be to export globally if we increase our exports to the United States and reach full capacity?

Mr. Thibault: If you are competitive and can go after these markets, then you just go after them and expand more, I guess.

The logic is that if you have to compete in a global environment, you have to try to get as close as you can to the most competitive producer anywhere in the globe. That is your best security. How do you do that?

Presumably you go after the markets in which you have the best chance. We have the same general social structure, language and cost structure as the rest of North America and that is our best opportunity to grow realistically. Once you have taken that step you are in a better position to go after other markets. Many companies are exporting worldwide right now.

Mr. Cordiano: I bring that up because on your graph on the export fact sheet, we notice that the share of total manufactured exports to the United States increased in 1984 while overseas exports have decreased dramatically. We become more dependent on the United States market as we increase our exports because it is easier for manufacturers to trade with them and more difficult to trade overseas.

Mr. Thibault: That is a good point. What has happened during the last few years is very much a function of exchange rates. Like the Americans, we have been heavily penalized in the last few years vis-à-vis offshore markets because of exchange rates. Similarly, because of our lower dollar vis-à-vis the US, we have some advantage there. I am not sure the last few years indicate the long-term trend.

Mr. Cordiano: It emphasizes the fact that it is easier to trade with the United States with the lower dollar.

Mr. Thibault: Yes.

Mr. Cordiano: If the exchange rate levelled off or was in the American favour, if the US dollar came down and ours rose, then we may see a shift.

Mr. Thibault: Very much so. Sure.

Mr. Cordiano: We also see a decline in our overall exports which means we are dependent on the US market. That is very clear to everyone.

Mr. Thompson: It is interesting. As you were talking, I was thinking of several companies I have been involved with. When they increased their trade with the US, they invariably became more of a world-scale producer of a particular product. They also

became more experienced in export trade. Then they started to move into other markets.

Perhaps, over time, as industries become more export minded through dealing with the US and world-scale producers, you will find they begin to move abroad. This is always tempered by the exchange situation, and anybody in a world trading situation wrestles with that all the time.

Mr. Cordiano: However, there is another factor in all this and that is where and in what industries our exports are derived. Are we moving away from resource-based industries and moving into ones in which we can create more jobs? Would it further compound the difficulty in moving away from that sector if we were to enter into a free trade deal with the United States, because it would make it a little easier to trade again based on that assumption and would be a further disincentive to manufacturers to trade in other areas in a significant way?

Mr. Thibault: I do not think any freeing up of the treaty rules between Canada and the United States in any way precludes expanding trade with other countries. In fact, if there is a GATT round, and I presume there will be some gradual increasing of opportunities there, the Japanese, for example, have recently announced they are opening up their markets and I am sure there will be many Canadian companies looking at what opportunities that provides. I do not think you preclude any other options. You simply focus on the one that is more important.

Mr. Cordiano: The Japanese have increased their exports in manufactured goods and built entire industries over the last 20 or 30 years. They have also had very protective measures for infant industries. As a result, their industries have grown up and become multinationals and they have become very specialized in certain areas. In fact, they will drop off industries that are not doing very well, as a very direct measure.

I am just concerned, if we enter into a free trade deal, we will not move away from dependency on our resource base because that will inevitably have gains for us. Will we be able to compete in the other industries?

Mr. Thompson: There is an interesting chart on that export fact sheet. The bottom chart shows the share of manufactured exports in processed materials and finished goods. The change is really quite remarkable in the last few years.

Mr. Cordiano: You are saying there is a trend, yes.

Mr. Thompson: As we become export oriented, we hope that is what will happen with improvements of scale.

Mr. Cordiano: However, we are not talking about becoming export oriented. We are just talking about exporting to the United States in a free trade agreement.

Mr. Thompson: That is export oriented. That is the biggest market.



Mr. Morin-Stromm: Is that not heavy auto--

Mr. Cordiano: That is fine, but--

Mr. Thompson: It is heavy auto, but there are other things as well.

Mr. Morin-Strom: Is Canadian content legislation not a big part of that particular chart, rather than any move toward freeing up trade in the auto industry?

Mr. Thompson: That is not freeing up trade. It is more a case of becoming export oriented, and obviously the auto pact is a large part of it, but there are a lot of manufactured goods exported now that did not exist five years ago.

Mr. McFadden: I wonder if I could go back to your submission. On page 7, point 2 talks about liberalization of cross-border trade and mentions sectoral arrangements.

There has been a lot of discussion, and the Ontario Federation of Labour was here yesterday and said, "A free trade arrangement probably is not a benefit. Fair trade would be better." On the other hand, we should look at whether sectoral arrangements would be useful. You have basically suggested here a free trade treaty of some type perhaps would not be beneficial, certainly in the short run, but we should look at ways to open things up and obviously we are heading to sectoral arrangements.

11 a.m.

We have been asking people to tell us which sectors we should be going into and what the impact would be. From my reading of it over the months, there is some real difficulty in identifying the sectors that we should be moving into because it seems as if the Americans may choose not to get into certain sectors we think we would like to get into. There will be winners and losers because you very seldom come up with a trade deal where you get your prime sectors you want export in and do not have to give the Americans anything in return at all.

I am curious to know, given the fact the sectoral arrangement may be the way to go, what sectors do you think we should be promoting and putting forward for free trade arrangements, and second, are there some sectors you think could be particularly prejudiced if we were to go down that road?

Mr. Thibault: I am not going to try to answer that in a very precise way. I think it would be wrong to do so because what you are asking is, "Is there someone who has enough information and enough knowledge of the future to be able to pick the winners and the losers?" The answer is no, nor should we pick them because to my mind that would be the wrong strategy. You could really make major errors that way.

However, to go back to what we have said, if the government does its homework, and we already have so many indications--the

petrochemical industry, for example, has already said, "Yes, what we need is greater market access. We have the world-scale plans, we can grow and we would explicitly seek greater access."

Conversely, the furniture industry has said, "We have some serious concerns because of the existing tariff structure and the amount of restructuring that it implies for us would be a major problem." So you simply look at what the industries are saying; you look at the relative tariff levels, the relative cost structures and I think, with enough homework, you can arrive at a pretty good feeling for what would be implied. At this point I do not know if enough analysis has been done to give us a very precise answer.

Mr. Thompson: In your second point, are the Americans going to want some of the same areas? This is precisely why we are saying, "Let us be well prepared," because it is going to be a tough negotiation. If you have ever negotiated, you know the best negotiator is always the one who is best prepared. That is what we have to do if we are going to enter into a negotiation with the US, which does come well prepared. It has a very good consultative mechanism with the manufacturing industry.

Mr. McFadden: It seems to me the Americans could look at more than manufacturing. They have already talked of services. It may be to our benefit to put services into the package. I do not know. I notice here you mentioned petrochemical transportation equipment. It is clearly a very dominant area, most of which is foreign owned, except for the urban transit vehicles, and so on, which are substantially Canadian owned.

I understand what you are saying in your point 4 on page 8 is you would not want to commit yourself to identifying the industries we would necessarily want to include in sectoral free trade; you would prefer exhaustive studying to be done by government in consultation with management, labour and other interested groups before we start moving into negotiation. Is that what you are suggesting?

Mr. Thompson: That is right, and I would not overemphasize the foreign-ownership problem. Having been involved with some of them, I would say the large multinational companies are probably the broadest thinkers of all. They tend to establish and expand where they have the best economic opportunities. If Canada provides a good basis for them to manufacture and ship into the US, this is what will happen, both cost- and access-wise. We should not say that simply because they are foreign owned, this is a detriment to trade in Canada. That is happening already, as you have seen in some industries.

Mr. McFadden: To pursue that, you said about 50 per cent of your between 3,000 and 8,000 members are foreign owned. You probably have a very good handle on their pattern in developing export markets. Perhaps in your meetings an attitude would develop.

The question has been raised here whether or not foreign-owned companies typically do not export as much as Canadian owned, but that they tend to truncate at branch plants

and so on. Other people have put forward the argument you have, that with global product mandating programs and so on they are quite export-oriented. What is the view of your association? Are there any figures you have today or could make available to us that would indicate the export orientation of foreign-owned members as opposed to Canadian-owned members?

Mr. Thibault: We do not survey our members on the basis of ownership, so I cannot tell you. I do not think we would want to in any case. I do not know that it is necessarily a good basis on which to ask questions because, as you say, there is a full range. There is no question but that there are many operations in Canada which are branch plants with a very limited function and so on.

In thinking about the trade policy we need for the future, our committees and our board look at the issue and say: "What is the future for them? Where are they going? What is the best environment we can create to ensure they have a future?" If they continue as branch plants, there clearly is not much of a future. They are going to be dead ducks anyway in the environment we face. Then one says, "We have to move and do something."

That is a challenge to us as Canadians. The management teams at those branch operations have to sit down and ask: "What is our future? Where do we want to be five or 10 years from now within the broader corporate structure?" They have to start making plans. There are dozens and hundreds of Canadian operations that have gone through that thinking and have come up with very real competitive roles for themselves. That is part of the process we are talking about here. If we do not create the environment in which that can happen but lock everything in, we will be locking ourselves into an uncompetitive position for ever.

It seems to me we have to step back and think a little about the strategy. Where do we want to be 10 years from now? We really have only three options. We can opt for the status quo and say, "We do not want to change anything." To most of our people that is not an option.

Then we can build fortress Canada. "There are a lot of big bad things out there and we do not want to face them, so we are going to keep the borders closed. We are not going to lower tariffs and we are going to protect everything." I think historically that route has proved to be a dead end as well.

To me and to most of our members, it seems the only viable answer is to continue moving, as we have in the whole postwar period, towards facing the reality of the marketplace and providing an environment in which our manufacturers can grow, having the faith, as the numbers show, that companies and Canadians can compete as well as anybody else if we put our minds to it.

Mr. Thompson: The question is not whether we want to live in the worldwide global village, but how we are going to manage to. We have no choice if we are going to exist.



Mr. Taylor: Yesterday we heard from the Ontario Federation of Labour and from Mel Watkins. A proposition was advanced; perhaps it was more than that. The message I and I am sure other members of our committee received was that we should not be preoccupied nor overly concerned about the need for international competitiveness in Canada, that we should presumably be more mindful of the status quo and of the social and economic systems that are in place, and that we should be more concerned with developing our internal domestic market and import replacement. That proposition was reinforced if not embraced--I would say embraced--by the New Democratic Party members of this committee. I would be interested in your reaction to that proposition.

Mr. Mackenzie: "Option" would be a better way of putting it.

11:10 a.m.

Mr. Thibault: If you ask most manufacturers, I think they would say that if you are telling them they do not have to worry about being more competitive internationally, then you are saying to them they are going to be out of business. It is as simple as that. It is not a question of choice. Any manufacturer who is not now aiming to be more competitive internationally is going to be in very serious trouble, if he is not already. From a manufacturing point of view, it is not a matter of choice. If you do not do it, you just go out of business.

We have to be concerned with preserving the existing programs to ensure the wellbeing of our people, but there must be a real economic basis on which to sustain that. One of the problems the country has now is that much of the income flow we used to have in previous decades from resource development has now dried up. We have not succeeded in providing the real growth in the economy necessary to sustain the commitments we made with regard to social programs in previous years. That is the transition we are seeking to make now as a country. A freer trade environment with the United States is an important element that will allow us to make that transition because it allows us to grow in a market in which we think we can grow. It builds the economic base on which we can sustain the social programs.

Mr. Cordiano: This is along the same line of reasoning. Most of us would agree we have to do more with regard to international trade and exports. We have to make a fine distinction here. It is a question of how much more trade we want with the United States. I should not phrase it that way. I am saying how much more dependent on that market do we want to be versus trading on an international scale. We are not doing very well in trading with other nations.

Mr. Thibault: I agree.

Mr. Cordiano: Trade has not increased on an international scale. You cannot make that point.

Mr. Thibault: We are not in any way saying we want to limit the opportunities offshore. We have consulates and embassies in dozens of countries and there is a tremendous amount of effort and there are trade missions. We have them ourselves.

Mr. Cordiano: Granted.

Mr. Thibault: If you are saying we are not doing well in these countries, it is not for lack of trying. It is a very competitive world out there.

Mr. Cordiano: It is a question of motivation as well and of the structure of the economy the way it exists now. We are spending a lot of time analysing a bilateral trade agreement. We also have to spend a significant amount of time analysing our structure in the economy.

Mr. Chairman: Do you have a question?

Mr. Cordiano: We have to make this distinction. How do we make it? We are doing a lot of trade with the United States. Most of our exports go there. It was not really a question. I just wanted to make the point that we had to make that distinction.

Mr. Thibault: If I could just comment further, the very first statement we make is that a new round of trade negotiations in GATT, including continued development of significant offshore markets, is the overall context in which we start. We must never abandon that.

Mr. Cordiano: My point has always been that it would be a disincentive for companies to then go and trade internationally.

Mr. Thibault: That is a point we will have to take into account.

Mr. Cordiano: That was my concern.

Mr. Knight: I have two questions. The first is a supplementary on the conversation that has just been going on regarding the methodology of how we can better compete in the future, whether it be in the international marketplace or bilaterally with the United States, but in particular bilaterally.

We have had some concerns mentioned to us by previous deputations regarding the pitfalls incumbent in a full free trade agreement or even a full freer trade agreement with the United States in that we lose control to a certain extent over some of our sectors because of the largeness of the American market and the inherent dangers in negotiating with a larger marketplace. The proposition has been put forth that we should enter into sectoral discussions. In your brief there is a certain amount of hesitation as to what you see as the method of entering into a bilateral trade agreement.

For example, in as much as the auto pact would be a subject of negotiation or renegotiation with the United States, does your

organization feel the minute you enter into a free trade arrangement that kind of withdrawal will create a problem? Your presentation does not really tell me this for sure. Does your organization feel that perhaps we would be wiser to enter into specific negotiations on specific sectors?

Mr. Thibault: As you know, the sectoral approach was broached under the previous federal government. I guess the difficulty there was it becomes very hard to match the benefits. We have some interest in promoting some sectors which we think will do well and they have some interest in promoting some sectors which they want to do well. You end up with a great difficulty in balancing unless you broaden it and say, "This does not make sense unless we get a little more and we can only...." The logic of it tends to drive you to a broadly based, gradual easing into a freer trading environment.

At the moment, it appears to me the best approach would be to initially consider all the possibilities with the possibility of some exclusions. Certainly at this point, as has been the case in all GATT negotiations, there is some question as to whether the whole agricultural sector can be included because it is complex and difficult.

As far as I can see, there is also the provision of excluding sectors like the automotive agreement where there is an explicit structure. It could very well be that both sides would decide, "Let us leave that one alone since it has been working for a while and let us deal with some other sectors." I think all these possibilities are there.

Mr. Thompson: It is ultimately subject to renegotiation anyway.

Mr. Thibault: It can be reopened, yes.

Mr. Knight: That is one of the concerns that has been expressed to us. Once you do negotiate a free trade arrangement with the United States, it may be in place for quite some time. We may not be in a position to reopen negotiations.

Mr. Thibault: One of the clauses of a treaty would include the basis for change. There are always safeguards in terms of the magnitude of change that either side can cope with. If it goes out of the bounds that were agreed to, then presumably there are mechanisms to slow it down or to cope with it, including the option of some kind of a mechanism for getting out of the deal altogether. These are normal parts of an agreement.

11:20 a.m.

Mr. Knight: Just to get a feel for the 65 per cent of your members, whom I understand are some of your smaller members, in favour of your position, were they in favour of freer trade in an attempt to stop US protectionist measures being put in place? Was that the position of most of your members or were they really interested in freer trade for export benefit purposes?



Mr. Thibault: As I indicated before, I think all we can do is put the question in fairly general terms and ask, "In what broad direction do you think the country should be heading?" It is that indication I am reflecting to you. As for the motives for answers, we did not probe those in detail. I imagine it is the whole range of issues. Clearly a number of companies in steel, cement, lumber, fish and food processing and so on have the motivation that they see very real impediments to getting into the US market being erected and, therefore, believe this process of negotiations could be an effective mechanism for trying to limit or remove them.

Mr. Knight: If the majority of people in favour were your smaller members, would it not be true that they as a group would not be the larger exporting segment of your association?

Mr. Thibault: There is no question in the indications we have that companies that already export clearly are more favourable to further exports, whereas those that do not, often do not have the knowledge base, if you wish, on which to express an opinion or to be very confident about that. There is a whole range of companies there.

Mr. Taylor: By way of a supplementary, I have had some response to my principal concern, but it has not been very full. I fear I might be held hostage by the New Democratic Party philosophy.

Mr. Mackenzie: There is not much danger of that.

Interjections.

Mr. Taylor: I am still anxious to pursue the proposition of international competitiveness and the paramountcy of that need. I guess it is a question of where it is on the scale of things. I am sure we are going to hear arguments from behind me and I am always reluctant to turn my back on my New Democratic friends.

Mr. Ferraro: That is the difference between Conservatives and Liberals.

Mr. Cureatz: We noticed that in the House.

Mr. Taylor: I look you guys straight in the eye.

Interjections.

Mr. Mackenzie: You can see the influence we seem to have.

Mr. Taylor: I do not actually often live in terror, if that is your concern.

There is a legitimate concern embodied in material that has come before this committee and I guess manifested in other ways through witnesses--at least one witness of whom I am mindful and, as I say, certain members of the committee. It is one I think we have to take seriously.

I would be anxious to have you enlarge on any further response you might want to make. I am not suggesting the proposition expounds along the lines of a siege mentality. I think it would be unfair to suggest that, but it is a proposition that maybe adopts some of the posture of some of the developing countries with respect to mandating domestic production where an item can be produced domestically and prohibiting imports of that type of item. It is that philosophy or economic policy that strikes me might be suggested by--I am thinking of the NDP members, and they can correct me if I am wrong.

Mr. Morin-Strom : And we will.

Mr. Taylor: There is nothing wrong with that. I hope you will. I would be disappointed if you did not.

That brings up other things, maybe more barriers in some cases, maybe a combination of things there. Again, that has been my concern--and you have said it--if you cannot compete then you are not going to survive if you have a global market. That is where we have to trade. Trade is important to our country and that trade is both ways. You cannot expect to export and not to import. I would appreciate observations from one or all of you.

Mr. Thompson: Competitiveness, particularly on the matter of productivity, is a very complex and difficult thing to fully understand. I have been responsible for plants in Canada, the United States and Germany.

First, we have no choice, as you have said. We are going to have to learn to be competitive if we are going to stay alive. I have every confidence from what I have seen elsewhere that Canadian management and labour can be completely competitive given the justification for capital expenditures based largely on scale that will allow us to be competitive in the production facilities we have available.

That is a broad statement. There are so many things that go into it but I do not see any reason management and labour in this country cannot be competitive in terms of pure individual productivity with any I have seen anywhere else. Then there are all the problems that get tangled up in how you apply those skills: willingness to work, the equipment that is made available to use, the government and impediments or regulations that may get in your way.

Yet there is no reason we cannot be competitive. Other countries similar to Canada in many ways--Sweden is a prime example--manage it. I cannot see any reason we cannot but we have to find some way to get our house in better order among government, labour and management. This is one of those things in which we can get together and find a better way to do it. That is what we are trying to get after.

Productivity has become a buzzword and most people do not really understand what they are talking about. To labour, it means one thing, to management it means another and to the press it

means another. It is a very complex problem but, yes, we can be competitive. We are being competitive in many industries today.

Mr. Thibault: I am not sure you have this situation described accurately. I do not believe it is a tradeoff between competitiveness and the social programs and structure we have. You need one to be able to have the other.

Mr. Taylor: I agree with you. I am not advancing my own thinking; I am putting to you propositions or views we have entertained as a committee. If the committee is going to deal with everything in an open, objective and evenhanded way, it is going to have to give serious consideration to all these propositions. You cannot just brush them aside with your own bias. That is why I was anxious to get whatever arguments I could from you to use at a later date with my friends Mackenzie and Morin-Strom.

Mr. Morin-Strom: Can I have a supplementary comment on his reference to our position?

The Vice-Chairman: Comment or question?

Mr. Morin-Strom: Comment and then a question related to Mr. Taylor's claim that I am opposed to Canada's engendering international competitiveness in our industry. From yesterday's discussion, we were not suggesting Canada does not have to be internationally competitive or that there is not a need, in particular, for productivity improvement in order to enhance our competitiveness in the world scene.

11:30 a.m.

The issue is how the words "international competitiveness" are being used by some of the advocates of a freer trade option. It seems to have become a euphemism for Canada having to move in the direction of lower labour rates, of concessions by labour to industry and, particularly on the governmental side, of a wide range of changes in economic and social policy. There are claims we do not have the same competitive position as the US because such things as occupational health and safety regulations may be tighter here than in the US.

Is the argument for international competitiveness being used to say we have to have the same health and safety regulations as the US, our dominant neighbour to the south? Do we have to have the same environmental regulations as the US? Do we have to have an acceptance of their environmental regulations? Do we have to have the same labour laws as the US, including the right-to-work legislation in the southern states? Do we have to have the same tax legislation and tax rates as the US? Inevitably, do we have to have the same kind of health programs, and the banning of regional incentive and social programs, in order for our economy to be completely competitive in a free market situation with the US? Is that the direction we are headed in because of the claim we have to be internationally competitive?



Mr. Thibault: No, I do not think that is necessary by any means. Currently, there is a lot of trade between all kinds of countries with very different cost structures. However, I think we have always to be very mindful of our own cost structure. By international standards, Canada is a high-cost place to manufacture, but there are various ways to absorb the difference. The exchange rate is one that currently is very important vis-à-vis Canada and the US. The evidence shows that our cost structure for manufacturing now is generally higher than that of the US, but our exchange rate has adjusted for it and allowed us to reach some kind of equilibrium.

It is clear that if we are going to get future investment and additions to our manufacturing capability, and if we want investment of that kind, we have to be able to offer some sort of environment to those investors that says there is a good possibility a plant will be competitive in the future. It is a question of the conditions one provides to obtain future growth. If we get too far out of line, we may just cut off future investment.

I do not think we are talking about equalizing everything, by any means, but there is a reality we have to face and we cannot continuously avoid it. Fortunately, there are many ways to skin a cat. You can have a higher wage structure if you have higher productivity.

Mr. Mackenzie: The Society for the Prevention of Cruelty to Animals will be after you if you make many comments like that.

Mr. Thibault: There are many ways to compete. Many companies in Canada can overcome the higher wage base in this country by having better technology, by more aggressive marketing, by better machinery, by better plant organization, by better commitment from the labour force and by better productivity overall. There is a variety of options.

Mr. Morin-Strom: Is not Canada in a very competitive position with the US now? The data you show indicate the great growth we have had in export sales to the US. We have also seen data that show something in the order of 80 per cent or 90 per cent of the trade going to the US is in products where the duties are now five per cent or lower. It seems to me that we are in a fairly free trade situation right now and that Canada has a fairly good competitive position. To claim we have to have further moves to provide us with international competitiveness is something of a red herring.

Companies are going to make adjustments or changes to keep up with technology and so on, but we are not now in a desperate protectionist situation where this should be the major overriding issue.

Mr. Thompson: We may be reasonably competitive and making some headway, but I do not think any of us, particularly some of the members in this room, would be happy with the present unemployment rate. That is what we are talking about trying to fix. We have a long way to go yet.

Mr. Ferraro: My supplementary is my question. It is going along the same lines as Karl was promoting to some degree.

According to your statistics, and I hope not to regurgitate much of what Karl has said, we have increased by 200 per cent export employment since 1965, and, with the exception of clothing and shoes, we are doing pretty well. Professor Clarkson of the University of Toronto said that by 1987, 96 per cent of everything we export will have a tariff charge of zero to five per cent, which is not bad.

I would agree with what Karl is saying. When you look at those facts, the reality of the situation is that Ontario and Canada are pretty damned good, to be blunt about it.

The other reality that is obvious, and it is not just those statistics that lead me to conclude this, is that the US is going to have a \$135-billion deficit projected for 1985. I fully understand, and I think all of us here understand, why they are talking countervail, why they are looking after their own backyard. I respect that.

You suggested, Mr. Thibault--I wrote it down and I agree it makes a lot of sense--that we have to promote ourselves and go into the new General Agreement on Tariffs and Trade talks with enhancement and all the rest of these wonderful things that we have to consider. However, is there not just a greater reality or fear that the truth of the matter is that we have it pretty good? If you dispense with the idea of free trade, we really do not have much choice considering the US position. We have to go into new GATT talks. It is quite possible that we are going to come out worse off than we are now, but we have no choice. What is your comment on that?

Mr. Thibault: We have no choice--

Mr. Ferraro: But to go into new GATT talks and negotiate. Is that not the reality of the situation, or just as big a reality as saying, "Let us go into GATT and maybe we can get a better deal"?

Mr. Thibault: As I said, we certainly start with the structure of the GATT, it being the primary structure that we must work towards. I made several comments on that. I have indicated that the need for Canadian companies to have room to expand is urgent, and the GATT's results may not come for years or quite a long period of time. That is one point.

The other point is that this committee might be interested in getting a briefing on the developments in the US, vis-à-vis foreign trade. You mentioned the size of its trade deficit. It is estimated to be up as much as \$150 billion this year.

Mr. Ferraro: It is \$135 billion to \$143 billion.

Mr. Thibault: All the indications we have are that they have very strong, very real and growing protectionist views in the

US. If we are not careful about how we manage our trade relationship with the US, we will be caught in that, and then we can pay a very big economic price. I think there is an urgency there that you should try to appreciate in terms of our relationship and our ability to get into the US market. I think they are clearly suffering, and they will put some kind of limitations on that sooner or later. Maybe an appreciation by yourselves of that situation, and how we should react to it would be very useful in your deliberations.

Mr. Ferraro: Let me rephrase the question. I will try to be brief. Is not the truth of the matter the fact that when and if we get into the GATT round, assuming there is one, we have just as big a risk of losing what we have as opposed to gaining any more goodies for Ontario and Canada? Does not the Canadian Manufacturers' Association accept that proposition as a possibility? Or maybe they think we are a whole lot smarter than the Americans. Tom, you are shaking your head, maybe you want to talk on it.

Mr. Thibault: I am not sure I understand your question. I am sorry.

11:40 a.m.

Mr. Ferraro: I am trying to say I am getting the scenario, in listening to witnesses, that Canada is really not that badly off right now. Sure, we would like to get more, but if you take the proposition that we have to go into new GATT round talks, all I want is a statement from the CMA that there is not a possibility we could lose more than we can gain. If you do not think that is a reality, that is what I would like to hear you say.

Mr. Kovacs: Our concern about the increased protectionism is not that it is going to come in the GATT forum, but that it is coming in the US right now.

Mr. Ferraro: With countervail, right. So we really do not have much choice but to go into GATT, unless we are going to go for free trade.

Mr. Kovacs: Our message today is that in the last 20 years manufacturing has changed rather dramatically. It is much more focused on export; very dependent on the US right now.

Mr. Ferraro: I accept that.

Mr. Kovacs: There are 750,000 manufacturing jobs in Ontario looking to the US.

Mr. Ferraro: About 90 per cent of Ontario's exports; 80 per cent of Canada's.

Mr. Kovacs: That is being threatened. We are not even talking about the possibility of keeping what we have and staying static. We are worried we are going to lose the gains we have made over the last 20 years. I guess the problem is to try to link that



into GATT. It is happening outside of GATT. It is happening in Congress right now. We are very worried that the structure of manufacturing as it exists in Ontario and the rest of Canada is threatened. We are set up for exporting a lot to the US right now and we would like to go further.

We have done rather well, we think, over the last little while. For the first time in our history, we are self-sufficient in manufacturing. We are exporting more than we import of manufactured goods. We think we have done rather well in the last little while, but we are threatened right now.

Mr. Ferraro: But there is that realization we could lose what we have.

Mr. Thompson: I was shaking my head because I agree entirely with you that negotiations, both with the US and within the GATT structure, are going to be tough negotiations. It behooves us to begin to co-operate now and get our facts together so we know what we are talking about, because it is going to be a tough negotiation.

Mr. Chairman: Does that mean it will not be the politicians' fault?

Mr. Ferraro: It will not be entirely the politicians' fault.

Mr. Mackenzie: I do not particularly subscribe to this view. Just before my question, you raised the concern about jobs and I suspect that is a concern of every member of every party in this House. I have had people make the argument with me that the increased unemployment we have had in the last few years coincides pretty directly with the freeing up of our economy, the increased trade and indeed to some extent the situation in many of the industrialized countries around the world with the GATT negotiations that have gone on. So I suppose you can make an argument on both sides of that. At the time of the higher trade we have seen, we have also had some of the highest unemployment consistently in this country for the last few years.

Mr. Thibault: I think I would disagree with that pretty flatly. The process of freeing up through GATT is in many cases very minor and very gradual. To try to ascribe the kind of unemployment we have had in recent years to that is stretching the statistical relationships a little too far.

Mr. Mackenzie: You can also argue it the other way. Freeing it up even more does not necessarily mean you are going to have the employment you are talking about.

Mr. Thibault: You can have a whole range of views on that. The guys who manage the manufacturing plants, the guys whose jobs are on the line too, are saying to us the kinds of things we are saying to you. They prefer and are instructing us to move and argue in the direction of keeping trade open, because that is where they see their greatest option for growth.

Mr. Mackenzie: One of the things that bothers me with that argument is the experience I had on the plant shutdowns committee. We were surprised at the number of branch plants that were set up to get access to the Canadian market. That is why some of us have some feeling about content legislation and import replacement. Many of the branch plants that were set up to supply the Canadian market were not allowed by their parent plants to export and also did very little research and development. So there are some really serious questions in what you are raising.

Mr. Thibault: That is clearly a problem. I would suggest the answer is not to lock them into that position forever, but to create an environment in which they can get out of it. The only way you can get out of it is to say, "At least you should be able to get back into your own market." Then the companies have to make a strategic decision on whether they want to continue the Canadian operation or discontinue it. There will be decisions both ways, I am sure, but on balance the manufacturing sector is saying we are much better off, the history and all the data we have show that, to create an environment in which you can make rational economic decisions.

Mr. Mackenzie: As long as we do not get too many Bendixes such as we had before our committee in Windsor. The decision was made on two weeks' notice to justify why a profitable plant should not be moved out of the country because the excess capacity was in the States. That was not the only example, just one of the more dramatic ones before that committee.

Mr. Thibault: If you have a structure like that you are clearly vulnerable. How do you get out of that? Do you lock them in and say, "You must be here" or try to regulate it and so on? We would probably say that is the wrong way to go.

Mr. Mackenzie: I wanted to ask a specific question because of a comment Mr. Morin-Strom made that the negotiations are going to be tough. I do not think we have any choice but to go into additional General Agreement on Tariffs and Trade talks with the US. I do not particularly fear the fact that we have such a large market there. I would like to see it diversified a little more for a variety of reasons. I fully understand the need for competitiveness, but I do not want it to be our priority because we would get into some real problems in what is becoming an economics global rat race with some of the Third World countries and so on.

If we have to negotiate strongly with the States, and I think the comment was made that there will be tough negotiations coming up, do you not feel we have thrown away some of our cards before we even start those negotiations? I am referring specifically to the Foreign Investment Review Agency, the national energy policy, the position on acid rain and the cruise missile issue. I am wondering how good we will be at negotiating when we have already thrown away all these cards.

Mr. Thibault: That is an interesting observation you should discuss with your federal colleagues.

Mr. Thompson: I can only say we are manufacturers. You are the politicians.

Mr. Kovacs: Again, GATT is about trade and tariffs.

Mr. Mackenzie: We are talking about all of these things. You are not naïve and neither am I. They are all bargaining cards if you are getting into it. The US is certainly a tough enough negotiator. Within my own union, the United Steelworkers of America, I know how tough they can be.

Mr. Kovacs: Most of the issues you were talking about were not directly related to tariffs and trade. Much of the discussion about what might be included in the next rounds of GATT was whether we should go beyond manufacturing and start talking about trade and services. Should we start talking about things other than tariffs? Should we get into procurement policy, etc.?

Mr. Mackenzie: FIRA certainly was directly involved.

Mr. Kovacs: The main focus of GATT will not be on FIRA or the national energy program and some of the other non-trade related issues. The focus will on trade.

Mr. Mackenzie: If I were sitting down and negotiating with the United States, I would love to have these cards in my hand, whether they are direct ones or not. We are starting from back there a little piece.

Mr. Kovacs: One of the points we made earlier is that even when GATT gets going, should an agreement come into place, it will be a long time before we see any impact on the Canadian economy--at least 10 years before we come to an agreement and see some change in our economy. To hold back for such a long time on some of the things we can make progress with immediately would be inappropriate when there are things other than trade we can move on quickly. It is good to start on them right away.

Mr. Mackenzie: I am not sure I agree with any of the tradeoffs we have made.

Mr. Kovacs: Now you raise some very different political questions. I agree with you.

11:50 a.m.

Mr. McGuigan: I want to compliment you for mentioning agriculture. Most of the people here do not even mention it, so you have some comprehension. You also said Professor Wonnacott mentioned we have to make adjustments. I think you say that very wisely.

The agricultural community is largely going to oppose the free trade concept. They do not feel very trustful of these adjustments when you look at some of the things that have happened in very recent years, one being the Canadian Commercial Bank going bankrupt a few months ago. We rushed in and gave them \$335 million without any arguments at all. We piled up \$335 million to them.



From articles I have read, the whole banking industry says it was gross mismanagement on the part of the banking people. It was not the fortunes of international events and so on. It was mostly mismanagement.

Yet when our farm community is in trouble, the answer to them is to send around the sheriff. You are going to have to put a lot more emphasis on standing behind the point of making adjustments than there appears to be on the federal scene. As opposed to that \$335 million gift to the CCB, they took \$50 million out of the budget of the Farm Credit Corp. for this coming year that was going to be used for agricultural credit. You have a real selling job if you are going to sell this to agriculture.

We have not heard from them. We are going to hear from them this afternoon. The hog producers would like to see free trade because they have made a big inroad into American markets. One can predict they are in favour of it. But with that one big exception they are not.

I want to say this in relation to Mr. Mackenzie's comments about the manufacturers wanting to get cheap labour. Recently, they closed the Libby, McNeill & Libby of Canada plant in Chatham. It was one of the biggest processing plants anywhere. There are 11 acres there and a really good building. They will sell it to anybody for \$1. It is the size of an auto manufacturing plant. Processing plants by necessity cover a lot of area. This is several times too big for Toyota. They would not require that much space to manufacture their cars so it was a big plant, yet there are only 200 people working in it. I have been through the place several times. It is very highly automated. No one is saying it is closing because of the fact it had a union. The farmers are not saying that. Libby's are not saying that. It closed because of offshore subsidized products, tomato paste from Spain and Portugal.

Mr. Taylor: California.

Mr. McGuigan: We get paste from there but not subsidized. We can deal with California. It is a tough deal with California, but still we can deal with it, but we cannot deal with the subsidized stuff from Europe. That leads to another point.

There are a lot of people here making comments about us being uncompetitive with the rest of the world. You have to face the fact that the rest of the world shuts us out. The United States does not. Europe shuts us out. The Far East countries do not have any money. The money is in the United States and that is the market we should be headed for. I do not get excited about not being competitive with China. Our chances of selling in China, except for some very rare products, are almost nil. We do not have to have that worry. The big dollars are in the United States. They are close to us. That is our market.

I want to assure our friends, at least for the processing industry in southwestern Ontario, it is not labour kicking it out. Any manufacturer would welcome a lower wage rate. It is human nature, but that is not being advanced as the reason why that Libby plant closed. It is because of European offshore subsidies.

Mr. Kovacs: This comes back to the farm sector and some of the views we have relating that to free trade. It also comes back to the sectoral approach and our own views about the pros and cons of sectoral free trade.

One of the problems we are having asking member companies whether or not they like free trade--let us make it plain and simple--is that everybody is talking about something a little bit different. There is agreement now that what we are going to get is negotiations. It is going to be sitting down with Americans and fighting it out. We will trade you this for that or whatever. It is important to us that we have more information and everybody is part of the discussions, so it is not some people off in a corner.

It has been common in free trade areas around the world to say, "We will have no tariffs and hopefully fewer nontariff barriers except in these areas." Agriculture is commonly on the list of exceptions. It is handled separately and has not been a problem in many of the free trade agreements set up around the world.

It comes back again to the sectoral approach. We have signed the General Agreement on Tariffs and Trade and we have to get permission from the other people who have signed GATT to have a special sectoral agreement with the United States, such as the automotive pact, if we wanted to have a petrochemical pact, etc. The auto pact was signed before GATT came into play so GATT says it is allowed. If we were to sign some other sectoral agreements, we would not only have to get the Americans to go for it, but we would have to talk to a lot of other countries. It is rather difficult to go through that process.

To set up an article 24 GATT free trade area as done in many countries, we just have to say most of the trade between our two countries is not encumbered by tariffs or nontariff barriers, such as procurement policies. Right now, a lot of the trade between our two countries is already going through with no tariff or a very small tariff. If we were to take away a few of the tariffs in other areas, we would be close to what most of the experts we have talked to have said would be accepted as substantially free trade between our two countries.

It does not have to include every product, only on agricultural products and a few of the other key areas we know are important to us. We would not want to have free trade. We want to keep some of our defence industry. We would like to keep a couple of other key areas and handle them quite differently than the other aspects of our industrial structure.

That is one of the problems with the sectoral approach. It would involve talking to a lot of people. You try to do tradeoffs and get agreement from many different parties. We will have enough trouble just talking with the Americans. If we do a blanket approach, it seems a little bit more straightforward, we have a bit more control of where we are going when we only have to talk to one group of people.

Mr. McFadden: This is a follow up to Mr. McGuigan's question on the Canadian Commercial Bank. It is not particularly relevant today, but in my recollection it was not money provided without strings. My understanding was it was a loan package through all the other chartered banks. The federal government's main role, as I understood it, was that the Bank of Canada was picking up paper or depositing paper with the CCB to maintain a liquidity. I was not aware of the fact there were any gifts being given to that bank. Maybe there were.

Mr. Chairman: Your point is maybe farmers should get together to loan money to one another?

Mr. McFadden: No, I am not sure this particular point was on the point.

Mr. Ferraro: Mennonites do.

Interjections.

Mr. McFadden: I should not disagree with you, Mr. McGuigan. I think there are times it seems like more assistance is given to industries with large operations than is offered to farmers or small business. I agree with that. I am just clarifying the record. In their case, they were in a little different bag.

Mr. Taylor: That is what I like about this member. He is always a champion of the weak and the oppressed.

12 noon

Mr. McFadden: I get a bit of a sinking feeling when I listen to what economists are saying about our future here. With 90 per cent of our exports going to the United States, and perhaps more as the years pass, it is inevitable that in our relationship here in North America--and I think everybody is agreed--we are going wind up in the long run with a very close relationship with the United States.

At the same time, there has to be real concern, and it has been expressed here as well, about our overwhelming dependence on one customer. In the near term, I have some real concerns. As you have mentioned, the United States is becoming legitimately worried about a \$150 billion trade deficit. Canada represents about \$20 billion of that, as I understand. In addition, the Japanese represent another \$37 billion or so with respect to their favourable balance with the United States.

The difficulty I see as we move along here, while it is clearly advantageous to develop and build markets in the United States, we could in the near term be heading into a serious crunch economically. If some of the protectionist moves were to gain flight, if they were to bring in certain short-term methods, if the administration, for example, were suddenly to decide it must make a significant change in the commodity balance and brought in surcharges or quotas or whatever, albeit short term, that could have some very significant impact on us over a short-term period.



With respect to your association and what you have garnered from your members, how do you assess the possibilities of our diversifying our markets? We all know the United States is big. Do you believe there is a reasonable possibility of diversifying in the Pacific Rim, Europe or elsewhere, or are we destined basically to have 90 per cent of our export markets tied up in the United States almost regardless of what we do? What is your overall view and what is the view of your membership on that?

Mr. Thibault: I will make several comments about some of the earlier statements we made. With regard to our trade deficit with the United States, you must keep a number of points in mind. The magnitude has to be adjusted by the scale of the two-way trade. Our \$20-billion deficit with the United States is on an enormously larger base than that of virtually any other country, including Japan. As a proportion, it is relatively much less important. Of all the countries with which the United States has a trade deficit, we are maybe 10th or 15th down the line with respect to relative importance.

Second, while we may have a temporary deficit with the United States that, in turn, benefits a tremendous number of US companies that are operating in Canada and shipping back into the States. Our deficit with the United States is not nearly the same problem as it is with Taiwan or Japan or some of the other countries, in which case it is a pure deficit and there is not the same base of trade. You have to be very careful about how you categorize the deficit we have there..

You mentioned the danger of surcharges. That is correct but it is precisely what we are trying to avoid by developing a better understanding of the nature of our trade relationships and trying to limit these kinds of shocks, if you wish, to which we are subject. That is the whole purpose of the exercise.

As far as diversifying, there are several points. As a country, we tried that explicitly as a policy some years ago and we did not get very far. You also have to keep in mind the reality of the world marketplace. If we think we are going to build bread-and-butter industries by exporting to Japan, that is, the prime manufacturing nation in the world, then I think we are all kidding ourselves.

If we think we are going to grow by leaps and bounds in the European market, where there is very high unemployment and they have their own problems, much more severe than ours in many cases, and it is a mature market, then we are kidding ourselves again.

The third major broad strategic area for export growth is, of course, the Third World, particularly the Pacific Rim. There are plenty of opportunities and our companies are rapidly expanding into that area. That is also a fiercely competitive game. The Germans, the Swedes, the Japanese, the Italians, the French, the Americans, the Brazilians--everybody is trying to get that sort of Third World business. The fact is many of these countries do not have a great ability to pay. It is a very complex kind of relationship to develop trade there.

If you come down to the real world, you say, "Do we continue to build the bread-and-butter flows of trade on which we can count over long periods of time, to create tens and hundreds of thousands of jobs that are needed to sustain our economy?"

The reality is, while these other offshore markets are an important element and will offer some real opportunities as a base, the real guts of the matter, the real core of it is always the US. That is why we are paying a lot of attention to managing that one correctly. We always have had and always will have a tremendous dependency on the US, and it is a question of managing it properly at this moment.

Mr. Thompson: As an aside to that, it may be much more politically acceptable in the US than you think. I have not seen the report. I would like to, but you might be interested in trying to get hold of it. Allan Gotlieb's office in the Canadian Embassy in the US has had a survey done of the average man in the street's perception of Canada.

It was interesting to me that the average American came out thinking that the biggest trading partner of the US was Japan and there were two or three others in there including Britain and Germany. Canada was well down the scale.

Mr. Chairman: Do they want Canadian trade?

Mr. Thompson: I do not think the guy on the street down there is going to be nearly as politically aware of some of these things as we are worried about. It is a very interesting study. I would love to read the rest of it. I just heard bits and pieces of it on the radio.

Mr. Kovacs: I would not mind talking a little more on the dependency on the US market. It really has changed since 1980. A focus on a 90 per cent figure can be somewhat misleading because it leaves the impression that today's environment is the environment we are going to be stuck with for ever.

If you focus on manufacturing, about 70 per cent of our manufactured exports have traditionally gone to the US and about 30 per cent have gone to other countries. That was true throughout most of the last 100 years; that relationship has been fairly stable. It is only since 1980 that our dependency on the US has picked up so much and we have gone from selling 70 per cent of our exports in the US to about 85 per cent since 1980, but that swing has happened mainly because of the remarkable strength of the US dollar. How long the US dollar is going to stay so high is not clear. It started to come down earlier this year and if the US dollar loses some of the ground it has gained since 1980, then it will allow us to get back into some of those overseas markets.

Traditionally, we exported 30 per cent of our goods to Europe and to the Pacific Rim. It was almost an equal balance going across the Atlantic and the Pacific. The ability to have world-class manufacturing in Canada has allowed us to move to where the money is to be made. Since 1980 that is the US. Increasingly we have shifted our exports into the US markets, we

have not been successful in competing in Europe and we have been less successful in the Pacific Rim area because the dollar is just so strong in those countries right now.

If the US dollar drops and gets back to where it was in 1980, then the profit motive could very quickly get us back into those markets and we could again get our 30 per cent export market back to Europe and the Pacific Rim. We have always done fairly well in those markets, but naturally more money is to be made in the US; it is a closer market, costs are less, it is one that we understand and it will always be our major market. I do not think it will be 90 per cent of our market for ever. This is a temporary phenomenon.

Mr. Chairman: Do you have any figures for Ontario? Would they be very dissimilar from the ones you just gave us?

Mr. Kovacs: More than half of the manufacturing in Canada is in Ontario. Particularly the highly export oriented industries are here in Ontario: the automotive machinery, electrical, and scientific equipment industries are right here. Most of the Ontario data would be similar and, if anything, more dependent on export.

Mr. Thompson: That is true, with minor exceptions. Things like forest products, for example, are less prevalent in Ontario than elsewhere.

12:10 p.m.

Mr. Cordiano: I am beginning to develop a feel for what you call a bilateral agreement. It is really a question of semantics and it is a question of the degree of free trade or freer trade. I think everyone would agree that we need to negotiate with the Americans, whatever level we are talking about. There is no question about it. It is a sense of defining the extent to which we will deal with them in terms of our trade. As we go along, it becomes more important to define just what we mean by freer trade. That could go with the entire spectrum of products, tariff barriers and nontariff barriers.

As a committee, we have to begin to decide what we mean by free trade. One can make the argument we have free trade now. Is what we need freer trade? Is what we are looking for in a deal with the US freer trade right across the entire spectrum of the economy or are we talking about gaining more preferential treatment for certain products? What is it we would be looking for in a deal with the US?

Mr. Kovacs: If I can summarize again what I think is our main point today, since the General Agreement on Tariffs and Trade, and over the last 20 years or so, manufacturing has changed here in Ontario. It is a lot different from what it was. We are not just making things for Canadians; we are also making things for the North American market and the world market.

We think we have done rather well over the last 20 years or so. For the first time, we are exporting more than we are



importing in manufacturing. We have added 500,000 manufacturing jobs because of exports. We have changed the way we manufacture in Canada and we think we have come out rather well.

However, we are seriously threatened because of protectionism in the US. It threatens not only potential future gains but also what we have right now. Three quarters of the manufacturing jobs are people making things for export. If the US shuts the door, those jobs are threatened, and the possibility of further improving what we are doing is also threatened. We would like to start talking to the Americans before they shut the door to make sure we can always have access to the market we have now; we hope through freer trade to have access to the US. Whether it is only the US market or whether it is worldwide, we are going where the money is. For the last few of years, it has been the US.

Once we have the economies of scale and globally competitive manufacturing operations, and when exchange rates and other factors allow us to go overseas, we are going to go there as well. We have always had a market overseas. It is a little tough to get in there now because our dollar is so strong, but when the environment is again right we would like to get further in the US, we would like to do more in Europe and we would like to do more in the Pacific Rim as well.

Mr. Cordiano: I sense that a bilateral agreement would be an all-or-nothing situation. Each of us perhaps has his own concept of what an agreement with the Americans would be like. I am trying to get a sense of what type of agreement is possible, because we have agreements already. Let us not say we are not doing trade in a freer context with the Americans; we are.

Mr. Thibault: If I could make a suggestion, some federal officials have been working on defining the scope of what an agreement might look like. What are the elements of it? What things do you talk about and where do you go? I suggest you ask some of the federal officials to come and give you some appreciation of what is involved in this kind of bilateral agreement. What exclusions are possible? What are the safeguards you have to have? What clauses do you include?

As far as the sectors that eventually might end up in an agreement are concerned, I have indicated to you I do not think you can predefine that. I think you have to enter into the process, and then it genuinely is an exploration and negotiation. You may end up with a broad agreement, you may end up with a fairly narrow agreement or you may end up with nothing. Negotiations do break down.

Mr. Thompson: Coming back to what I said at the beginning--and I am not too proud to borrow a phrase--we are much more concerned with the end result than with the process. When you talk about free or freer trade, you are talking about the process. I must admit I like the term "enhancement of trade" because that is the end result and that is really what we are after, enhancement of trade with the US. Now you are getting into semantics, but that is really the direction we are advocating.

Mr. Cordiano: It certainly has been a goal throughout the entire global markets to enhance trade. It is not a new concept. That is our intention in the GATT rounds of negotiations. However, it is a question of trying to come down to the nitty-gritty of what a free-trade deal would likely incur. That is what we have been hearing from witnesses on both sides of the argument. Again it has to be very specific for the purposes of this committee to understand, to get a better feeling for what kind of deal is going to be negotiated.

Mr. Chairman: Gentlemen, for your information you should be aware that we are making plans to get briefings from officials in Ottawa and in Washington. Thank you for your suggestions in that regard because obviously that is going to have to be part of our input.

I would like thank you for your presentation today. I found it extremely sensitive to a number of the problems that we are finding, as you have obviously found, exist in looking at this problem as a whole. The fact that you have come to some of the same findings in so far as problems are concerned is significant, and your data will be helpful to us. Thank you very much.

Mr. Thompson: Thank you for the opportunity.

Mr. Chairman: The other submission members had was from Mr. Hemming, who was in the audience this morning.

Mr. Taylor: Do you think you could interpret it for us over lunch?

The committee recessed at 12:17 p.m.





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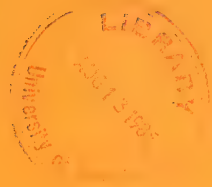
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Publications

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, AUGUST 1, 1985

Afternoon sitting



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LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, August 1, 1985

The committee resumed at 2:07 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Perhaps we could bring the meeting back to order. This afternoon, after long and patient waiting, we have the Ministry of Agriculture and Food. I would like to introduce Dr. Clayton Switzer, who is third from the right as I face him, Dr. George Collin, Brian Slemko, Grahame Richards and Bob Seguin. They have a presentation which will take about 40 minutes, including slides, and they will welcome your interruptions for clarification purposes. I would ask you to try to keep the interruptions for those purposes, so that they can get through their presentation, and thereafter we can ask questions.

Dr. Switzer: Thank you, Mr. Chairman, and members of the select committee. We appreciate the opportunity to meet with you and look forward to telling you a little bit about the agriculture and food system of Ontario and how that system fits into the trade patterns of this province and indeed the trade patterns of all of Canada.

Dr. Collin, on my right, is our assistant deputy minister of the marketing and quality standards wing of the Ministry of Agriculture and Food. I would like to ask George to make the presentation today and to introduce some other members of the staff who are here to help him make that presentation. With your approval, Mr. Chairman, I turn it over to Dr. Collin.

Dr. Collin: Thank you, Mr. Chairman. We have prepared a paper. Staff have it, I believe. Has it been distributed?

You have the paper, and it is a fairly lengthy one. We would like to present an overview of the paper on transparencies or overheads. I would like to introduce the other resource staff. Our deputy minister is Dr. Clayton Switzer, who already has been introduced. Next to Clay is Grahame Richards, director of the market development branch; next to Grahame is Brian Slemko, director of the food processing branch; Mr. Bob Seguin is economics manager of the policy development group; David Thompson is showing the overheads; and Richard Caine is supporting us as another economist.

The purpose of the presentation is to familiarize your committee members with agricultural trade policies and issues. If we could start with the overheads, we would like to take you through the detailed paper, highlighting with the overheads for your knowledge and understanding.

2:10 p.m.



This presentation will cover five general areas: the significance of agriculture, agricultural trade profile for Ontario, an overview of agricultural trade policy, a review of ministry trade marketing programs and a subissue within that, trade environment, leading into the fifth topic, trade policies and strategies, and we hope, in 40 minutes, a summary and conclusion.

I might point out that we have an appendix of very specific trade issues, such as countervail, import quotas on sugar, a very timely issue for food processors in the Toronto area, and such issues as wine, beer and spirits imports. If we have time, and if you have interest, we can proceed in that.

If I could give you a bit of an historic perspective on the significance of agriculture, I would like to put it this way. In Ontario we have had 200 years of settlement and development of agriculture. In the past 100 years, we have seen research and education developed. In the past 50 years, we have had legislated farm products marketing; and in the past 35 and 40 years there has been a very rapid technological change in agriculture and the processing of its products and of food.

In the last 10 years, we have seen within the ministry more interest and effort in trade liberalization through multilateral trade negotiations. I guess, gentlemen, we will leave it at that and look forward to the future.

We have the first slide. I would like to talk about the significance of agriculture.

Ontario has the largest provincial agricultural sector of the 10 provinces, roughly 82,000 farmers, who generated more than \$5 billion of cash receipts in 1984. The share of the provincial farm production by commodity, giving the top six, is led by cattle and calves, followed by dairy, hogs, corn, tobacco and poultry.

I would point out in my historic comment that dairy, poultry, eggs and tobacco operate under the authority of supply management, whereby supply and price are set or negotiated by producer marketing boards. More than 65 per cent of the farm commodities are marketed by boards under the authority of legislation.

The food and beverage manufacturing sector employed more than 80,000 people and generated close to \$15 billion in sales in 1984. Over 40 per cent of Canada's food and beverage industry is located in Ontario, and the agriculture and food sector directly and indirectly employs approximately 500,000 people in farming, processing food, distribution and retail and the restaurant and service sectors.

Mr. Chairman: Excuse me. Are these slides in our material?

Dr. Collin: They are not, but we can provide hard copy afterwards if you wish. We would be quite happy to do that.

Mr. Chairman: I think members would appreciate that.

Dr. Collin: The first figure we would like to highlight is the Canadian farm cash receipts by province in 1984. You can see that in 1984, Canadian farm cash receipts totalled \$20.2 billion. Ontario's farm cash receipts were in excess of \$5 billion, representing 26 per cent of the Canadian total.

As previously noted, Ontario has the largest farm cash receipts of any province, and it is notable to see the contribution of the prairie provinces to Canada's total cash receipts.

Mr. Mackenzie: If I can ask a question, can I take it Quebec's breakdown would be very much like Ontario's with respect to the product?

Dr. Collin: Somewhat similar, yes.

Mr. Mackenzie: When you get to the three western provinces, you will be dealing more with wheat and the various grains.

Dr. Collin: We would like to highlight that and come back to it.

The next slide illustrates the commodity share of Canada's farm cash receipts. It addresses somewhat, in a very general way, your question concerning that. As you will notice, the main commodities are wheat, 21 per cent; cattle, 17 per cent; dairy, 13 per cent; and hogs, nine per cent. The other category, 15 per cent, contains products such as potatoes, lamb, fruit, soybeans and miscellaneous crops.

We would like to proceed from the Canadian to the Ontario picture and you can see the breakdown of Ontario farm production is rather different from Canada's, as you can see on this pie chart. Ontario is the heartland of Canadian agriculture. It is remarkably diverse. Ontario produces more than 200 different commodities. We grow all of the country's soybeans, 70 per cent of its corn and 40 per cent of its fruits and vegetables. The province is the top producer of hogs, cattle, poultry, eggs, sheep and lambs. In answer to your question, Mr. Mackenzie, the Quebec distribution is somewhat similar.

In comparison, Ontario's wheat production represents only two per cent of the farm cash receipts, while it represents 20 per cent of Canada's. The main commodities in Ontario are cattle and dairy products, followed by hogs, corn, poultry and tobacco.

I would make the point that Ontario is basically self-sufficient in its feed supply to support its livestock industry. You do not see the magnitude of the forage and grains, corn and soybeans which are marketed as hogs, poultry, dairy products and beef. Ontario produces a much wider range of agricultural commodities compared to any other province due to our climatic advantage.

The next slide shows Ontario's agriculture-related manufacturing or, if you wish, the food and beverage sector. This chart shows its composition. It employs 87,000 people and generates sales of \$15 billion value annually. It is worth noting the diversity and breadth of agriculture-related manufacturing. The largest such industries are red-meat processing, with sales over \$2.6 billion; dairy, with sales over \$1.7 billion; fruit and vegetables, with sales over \$1 billion; beer, wine and spirits, with sales of \$650 million a year.

In summary, the agriculture trade profile for Ontario can be viewed in this extent. For agriculture and food commodities, it is comprised of exports of \$1.9 billion annually, imports of \$3 billion, with a relative deficit of \$1.1 billion. Ontario's deficit in food contrasts to the surplus for Canada of \$4.3 billion, made up of grains and oil seeds in particular, exported primarily from the prairie provinces. The rate of growth of Ontario's agriculture and food exports has surpassed that of imports. Ontario's agricultural trade performance has improved in the last decade.

Mr. McGuigan: Are those figures exclusive of products we do not grow in Canada, such as bananas, citrus fruits and so on?

Dr. Collin: These particular figures?

Mr. McGuigan: Yes.

Dr. Collin: They include those and we will get into that in detail in a few minutes.

We would like to take you through this bar graph which projects Canada's agricultural trade as imports and exports. As we mentioned, in 1984 Canada had a trade surplus of \$4.3 billion. As you can see, this trade surplus has grown over the last decade and it is primarily the result of enormous grain exports. Canada exports close to 80 per cent of its wheat production and this was valued at over \$4 billion in 1984.

2:20 p.m.

In comparison, this is Ontario's agricultural trade. As you can see in this graph, Ontario has a trade deficit in agriculturally related products. In 1984, exports were \$1.9 billion and imports were \$3 billion. The agricultural trade deficit has been declining during the last decade. The growth of exports has outstripped the rise of imports. And 1984 was the first year since 1981 that agricultural trade grew. The main reason for the strong growth was the United States-lead recovery in the North American economy. Growth in exports and imports in agricultural products came to a halt in 1980, which was largely the result of world recession and a decline in inflation rates.

Mr. Ferraro: This might be a stupid question. Are you saying these are imports from outside of Ontario, which would mean from other provinces as well as from the United States or any other country?



Dr. Collin: They are offshore and US imports.

Mr. Ferraro: Offshore? Okay.

Dr. Collin: Not movement between provinces.

Mr. Ferraro: Not interprovincial?

Dr. Collin: No, they are not.

I would like to proceed to the commodities share of agricultural exports which gives a sharper focus again. Exports of food products account for 40 per cent, or \$900 million, of the Ontario provincial total. This includes \$180 million for meat; vegetables, \$100 million; and grain products, \$134 million. Second to food are beverages. This in particular reflects the export of whisky and beer to the United States.

The next one will show agricultural imports and this, Mr. McGuigan, goes back to your question. Food imports account for 69 per cent, or \$2 billion, of the provincial food imports. Specifically, fruits and nuts represent \$628 million--citrus fruits, juices and grapes in particular; vegetables, \$303 million in imports--lettuce and tomatoes in particular; and meat, \$187 million, representing offshore and US high quality beef for the restaurant and hotel trade.

This slide gives you some feel for the destination of Ontario exports. The importance of the US as a supplier of products and market for the Ontario produce is clearly apparent. The European Economic Community share of 12 per cent is quite reduced since 1973 when Britain entered into the EEC.

At this point I would like to take a break and ask Grahame Richards to make some comments about where export development staff are located in relation to this paragraph?

Mr. Richards: Our export development staff is located in 801 Bay Street and it is divided into two groups.

There are commodity officers who specialize in certain commodities--grains and oil seeds, horticultural products or grocery products. They organize the outgoing missions and incoming buyer programs.

In the US marketplace we have five agricultural and food market development specialists from the Ministry of Industry, Trade and Technology and offices are located in New York, Philadelphia, Chicago, Los Angeles and Dallas. For the EEC we have an agriculture and food development officer out of Ontario House in London who has the United Kingdom and western Europe. The balance of the world is served by export officers operating out of 801 Bay Street: one for the Pacific Rim, one for eastern Europe, the Middle East and Africa and one for Latin America. It is the staff involved in export development.

Dr. Collin: The next overhead shows the origin of imports. Again it is a pie graph. You will notice that the source

from the USA accounts for 65 per cent. The next largest is the European Economic Community, which supplies 13 per cent of Ontario's agrifood imports. These are primarily cheese, wine processed food and the re-export of tropical products such as tea, coffee and cocoa.

The second major section is the overview of agricultural trade policy. The first significant point is that there is definitely a federal responsibility in quotas, tariffs and trade agreements. We look to the Department of External Affairs and Agriculture Canada to take leadership in this area of policy formulation.

The provinces provide the input on our particular regional interest and there is concurrent federal-provincial jurisdiction in agriculture. This is the overlap of programs in production, research, advisory service, assistance and crop insurance, stabilization and targeted development.

A valid question is why is the Ontario Ministry of Agriculture and Food in marketing of food and commodities? This question has been asked many times in the past. It is an unique relationship. It is centred on the legislative responsibility to provide organized marketing and it is difficult to separate the marketing opportunities from the export and import concerns and trade issues. There is a good relationship between OMAF and the Ministry of Industry, Trade and Technology. We strongly support the co-operative approach in marketing and trade.

There are issues of provincial and federal domestic programs that have a direct and indirect impact on trade development such as credit stabilization and subsidy government procurement and Ontario Liquor Board policies. The final point is that in the overview of trade policy formulation pragmatism and tradeoffs must apply. That could be referred to the beef quota we offered to go to in detail later on.

For the past 40 years the direction of the Canadian trade policy has been for trade liberalization developed under the multilateral trade negotiations. It still applies. Canada, Japan and the US want a new round in 1986. The EEC is reluctant and France has a particular concern about agricultural production, which makes delay quite possible.

There is a seeking for further trade liberalization, particularly in dealing with nontariff barriers. I would give the example here of the barrier applied on delivery of live hogs from Canada to the US and the so-called concern with chloramphenicol, a pharmaceutical used in the production of hogs. We have explored the issue of bilateral sectoral free trade in areas such as agricultural machinery and use of agricultural pesticides with the US.

There is an effort now to examine trade enhancement, more commonly called freer trade with the US. This is at the federal level with the federal Minister of Agriculture, Mr. Wise, and his counterpart in the United States and at state and provincial levels.

Regarding the Ontario trade policy with particular emphasis on agriculture, the emphasis is market expansion, export promotion and import replacement. There is the effort and commitment to trade liberalization through GATT bilateral trade agreements, as for example, in the auto pact in the province.

2:30 p.m.

In agricultural policy there is a cautious approach to liberalization. We have experienced the last round of multilateral trade negotiations. Ontario is cautious on bilateral free trade with the US in comparison to Alberta, which has taken a strong interest in that opportunity, particularly for its agriculture.

The major section of our ministry programs is export marketing programs led by Grahame Richards. The objective is to expand Ontario's agriculture and food exports to a total of \$3.2 billion per year within the next five years. The strategies they use in the department are to encourage companies currently exporting to expand sales into new markets; to help new companies sell abroad; to identify marketing opportunities abroad; and to educate Ontario companies in the mechanics of export and developing sale aids.

The second major area is the area of trade missions. These are both outgoing and incoming trade missions. In 1985, 250 companies were recruited to participate in 35 missions to 50 foreign markets. In 1985, 60 companies will participate in 15 incoming trade missions. There is a placement of permanent Ontario Ministry of Agriculture and Food trade specialists in five key United States markets and the effort is to maintain an OMAF trade office in Europe.

Grahame, do you have the press release on China that can be distributed as I proceed? We would like to offer to you an illustration of the press release on the results of the recent Chinese trade mission, which may provide you with some reason to ask questions now or later. We will proceed as Grahame distributes them.

There are other export market initiatives. Within the ministry, there is an information retrieval system to assist Ontario exporters and overseas buyers. There is a data base system. There are programs to assist in developing export brochures for exporters, product reformulation, development of new labels, information tools and particularly a growing area of transfer of technology. We are developing and offering seminars on the principles and practices of exporting and exhibiting at key foreign food and agricultural trade shows.

Another aspect of market development involves the food processing branch. Brian Slemko, sitting at the far left of the table, is the director. The objectives are to develop an efficient value-added food processing sector, encourage the utilization of home-grown products, replace imports and promote exports. This is achieved by aiding the establishment of the infrastructure or processing and storage facilities. The examples we would use are the programs for developing a tomato paste industry in Ontario and an expansion of asparagus for processing in fresh markets.



There is a promotion of Ontario-grown food, grown and processed food products, through the Foodland Ontario advertising program.

I would like to talk briefly about the trade environment. The issue is the developing swing to protectionism. The increase of trade was the cause of the economic growth in the post-war era in the world, in Canada and in Ontario. A trade-dependent nation, such as Canada, which exports more per capita than the US or Japan, is very sensitive to protectionist measures of the trading partners. Trading protectionism is certainly on the rise in the global environment.

Specifically, for agriculture, as we look across the nation, these are threatened, pending or actual trade actions against Canadian agricultural and food products. Many of them are countervail issues. In the Maritimes, these are potatoes, blueberries and salted cod; in Quebec and Ontario, hogs, sugar, processed foods, wine, beer and beef; on the Prairies, hogs, grain, oilseeds and beef; and in British Columbia, raspberries. These actions involve more than \$1 billion in trade volume.

The question we are asked is why? The impact seems particularly to be that the United States, our trade partner, is at a crossroads on trade policy. The long-standing resolve to resist protectionism is being weakened. The issues are macroeconomic policies--issues of high interest rates, a strong US dollar and an increasing US trade deficit.

The legislators in Congress are frustrated and combative. There is a prolonged and extremely difficult economic period. There is a willingness to export domestic agricultural problems, as we see in the use of export subsidies by the European Economic Community and the export subsidies applied in the US for such things as grain and tobacco.

Governments seem to be adopting the attitude that all exports are good and all imports are bad, and that is very difficult for an exporting-importing community such as Ontario.

The protectionist measures found by agriculture are issues of import quotas, tariffs, voluntary export restraints, government procurement practices, health and standards regulations--for example, chloramphenicol use in hogs; they stopped shipment of hogs as a result--anti-dumping and countervail action. The countervail action is particularly worrisome.

Mr. Ferraro: Could you give an example of voluntary export restraint?

Mr. Seguin: I will not use one on the food issue, but as you know the government of the United States negotiated with Japan a voluntary restraint on Japanese exports of autos to the US. In the case of agricultural products, the best example is not exactly voluntary; it is the use of the US import quota. We have the same in Canada. Limits are set, but they can be negotiated. The question usually is to avoid having the quota set. Countries are asked voluntarily to restrict exports of that product to the country.

Mr. McGuigan: On the import of strawberries from California, the Ontario Fruit and Vegetable Growers' Association made an agreement with the United Fresh Fruit and Vegetable Association in the United States. They do not ship during our short production season. It is purely voluntary. There is no government involvement at all. It is from one association to another.

Mr. Chairman: What advantage do the Americans get out of that?

Mr. McGuigan: They get full market at the other times of the year and co-operation on other items.

Dr. Collin: I would like to proceed and look a little more closely at the issue of countervailing duties, which I mentioned is particularly worrisome. I make the observation that in recent years US agricultural producer groups have been turning to the countervail law for import relief with increasing frequency. If you would like to make reference to table C.1 in appendix C in the detailed handout, it catalogues many recent US agricultural countervail cases, for example, imports of lamb meat, live hogs, pork, wine, flowers and orange juice concentrate.

2:40 p.m.

It is interesting to note that only one recent investigation concerning US imports of frozen orange juice concentrate from Brazil in 1982 resulted in the imposition of countervail duty. The other investigations that have been completed were all terminated on the grounds there was no evidence of injury. As you all know, the investigation of Canadian hogs and pork was completed July 25, with countervail applied to shipment of hogs from Canada into the United States.

On the issue of countervailing duties, there is the need to offset the injurious effects on domestic producers of foreign government-subsidized imports. The concept is to provide, as the economists say, a concept of the level playing field, all fair on the level. Under the General Agreement on Tariffs and Trade code, permanent duties require injury determination and that subsidy be shown as a causal relationship. US and Canada laws are in compliance with this. In the United States and Canada, countervail follows a very strict timetable and is administered by a quasi-judicial body.

Looking specifically at the US live hog and pork countervail action, this is a decision which was made very recently. The US found the Canadian federal and provincial governments subsidized hog production and imposed a countervailing duty on live hogs from Canada. The shipment of pork meat is exempt. The decision was made on July 25. The action will disrupt Canadian hog markets. Ontario's live hog exports to the US are expected to decline, while pork exports are expected to increase. The decision is likely to be appealed by the US. They will attempt to apply it to the pork meat exports and, again, it will be appealed by Canada, which will ask for the exemption of live hogs.

In appendix C, again in table C.2, there is a list of Canadian countervail cases. You could make reference to that. In 1984 Canada imposed countervailing duties on imports of canned ham and luncheon meats from Denmark and the Netherlands. These products were shown to be benefiting from EEC export subsidies. Canadian cattle, wine, tomato and pork producers may petition for countervailing duties on imports from the European Economic Community.

I would like to proceed to the fifth section concerning Ministry of Agriculture and Food trade policy and strategy. This is our present plan. The issue is to be aware of the issues. For example, the live hog countervail case highlights the need for vigilance, knowledge and preparedness to act as key components in trade policy. Vigilance really means monitoring and identifying trade irritants. Our staff on economics and policy take this on. A knowledge and understanding of trade law in processes is the responsibility of the staff of our market development branch. Further than that, there is a preparedness to commit resources to defend Ontario trade interests abroad.

I might mention marketing boards are giving a very clear signal to the ministry in urging early preparation for the 1986 GATT negotiations.

Other policy strategies include improving competitiveness. Agriculture in the next decade will be very unlike what it was in the 1970s, which saw agricultural development and great export opportunities. There will be a slow rate of growth in agriculture exports in the 1980s compared to the 1970s, caused by chronic surpluses, indebtedness and the emergence of new exporters--for example, China. Market orientation will be the issue. Export enhancement of the 1985 US farm bill is certainly a grave concern. Success in the 1980s may be measured by maintaining market share, rather than showing gain in market. Ontario must strive for improved farm and agribusiness productivity and efficiency.

I would make the point that our province has the largest provincial program in research, a \$32-million annual program, and we have a long-standing and a very effective advisory service that ensures good and effective technology transfer. It must be an effort to sustain vigorous market development initiatives involving both private sector and levels of the government. The issues here are orderly marketing, import replacement, export development, and the concern for value added.

The strategy takes into account the new round of multilateral trade negotiations. The objective is trade liberalization. The last round ended in 1979, the so-called Tokyo round, and there was success in reducing some tariff barriers. The next round, as we have mentioned, may start next summer in 1986, the so-called Reagan round. Tariffs and nontariff barriers are to be discussed, especially export subsidies and domestic policies that impact on trade.

There is perceived to be a need to bring agriculture more fully into the intent and spirit of the General Agreement on Tariffs and Trade. However, as I mentioned before, France, for example, seems much opposed to such action. Negotiating strategies



are now being developed for the next round and, as we have said, MTNs are particularly important to small trading nations such as Canada.

With the issue of the US-Canada trade enhancement, there is a long-standing attitude to freer or possibly enhanced trade between the US and Canada. Because of the dependence on the US, the federal government is exploring these particular merits. Western Canada generally supports the approach and Ontario is cautious. There is an interministry committee preparing and analysing the implications following the lead of the Ministry of Industry, Trade and Technology. David Thompson is taking the lead for the ministry.

Let us reflect some of the reaction in agriculture. For example, the Canadian Meat Council says it is bad news. Supply management boards in Canada and marketing orders in the US will undoubtedly prove very difficult in this movement for enhancement of US-Canadian trade. Freer trade in agriculture and food products would certainly cause structural adjustments in some sectors and quite possibly the elimination of other sectors.

For example, there seems to be an opportunity for hogs to gain in this round, but horticulture and horticultural processes certainly would lose in this round of freer trade.

Our conclusion is that agriculture could certainly cause and pose a major stumbling block in negotiating a trade enhancement agreement with the US.

In summary, I have three points. The agriculture and food sector in Ontario warrants proper and careful consideration by the committee in its deliberations over trade options for Ontario. The developments in the international trade arena, the protectionism and the increasing competitiveness, indicate it is prudent to continue an aggressive export market development initiative, reasonable import replacement programs and continued development of domestic markets. The provincial trade policy should focus on securing improved market access. This goal should be pursued using a variety of vehicles including, as we mentioned, vigilance, knowledge and a preparedness to defend trade interests abroad and to seek continued important improvements in our own agricultural productivity. We also require a commitment to work within the framework of multilateral trade negotiations and thoroughly investigating the benefits and costs on a sector basis of such initiatives as trade enhancement with the US.

That completes the presentation. As I mentioned, there are very specific comments and slides if you wish to proceed into some of the issues.

Mr. Chairman: Initially, some of us at the front wanted you to clarify one thing. Did you indicate there is an interministry committee on trade looking at this issue right now?

Dr. Collin: Yes, I said that. There is a new ministry committee of the MITT, of which Mr. David Thompson is a member representing agriculture.

Mr. Chairman: Could you tell us a little about it?

Mr. Thompson: I defer that question to Mr. Richard Caine, who has been attending meetings more diligently than I.

Mr. Chairman: Perhaps you could tell us a little about it because we have heard from all the other ministries and this is the first we have heard of it.

Mr. Caine: I attended your first meeting here and heard the Deputy Minister of Industry, Trade and Technology speak, and I think he did mention to you that the trade issue was under study. When he used the term "under study," he was referring to this interministerial trade committee. He said he would be able to report back to you on some impacts of a Canada-US free-trade agreement. He was referring to this ministerial committee.

The committee is made up of civil servants in the various departments. The Ministry of Industry, Trade and Technology has been conducting a study specifically looking at the manufacturing sector, Treasury is looking at the service sector, and Agriculture and Food is doing an analysis on the impacts of Canada-US free trade on the Ontario agricultural sector. That is a brief overview of the work of this interministerial committee. There is parallel work being done in the federal bureaucracy.

Mr. Chairman: Is the Ministry of Industry, Trade and Technology conducting the activities of the committee? Where is the secretariat of the committee?

Mr. Caine: MITT is chairing this committee.

Mr. Taylor: Who is pulling it all together?

Mr. Caine: MITT is.

Mr. Taylor: The various ministries must have a data base already in place?

Mr. Caine: Right, but information is being fed into the committee.

Mr. Taylor: Yes, but the information I am getting at is the information that is there and probably has been there. What you are doing is pulling it together and then you are going to come out with a report within, what--six weeks?

Mr. Caine: The Ministry of Industry, Trade and Technology is the most advanced on this. They have been doing original work on this and are conducting a survey of the manufacturing sector. It is a research effort.

The Ministry of Agriculture and Food is not as advanced. We were not brought into it until a later date, but there is original work. It is not only material that is in the ministries.

Mr. Ferraro: How old is this?

Dr. Switzer: I might be able to help. My recollection is that I received a letter from the Ministry of Industry, Trade and Technology about two months ago, and I assume it was sent to other people in other ministries, inviting me to name a representative on the committee. We talked it over in our ministry and it was agreed who should represent the Ministry of Agriculture and Food on the committee. I think it was about two months ago.

Mr. Caine: It was June 10, from my notes, and George MacDonell came also.

Dr. Switzer: It is not quite two months then.

Mr. Caine: We had started attending by June 18 or 19.

Mr. Chairman: I see. So you have the impression it was operating even before the beginning of June?

Mr. Caine: Yes.

Mr. Chairman: Sorry to be so--

Mr. Caine: The Ministry of Industry, Trade and Technology has been doing work and studying the developments.

Mr. Chairman: I think all members of the committee are curious about why we had not heard about this until now when we have heard from all of the other ministries. Nothing has been resolved and everything is ongoing as far as you know?

Mr. Caine: Yes. I am going back. It is an in-depth analysis of the impact of free trade with the US on the Ontario manufacturing sector. That information is being gathered and industries have been divided into high-path and medium-path industries. We are looking at the impact on the various parts of the Ontario manufacturing sector.

Mr. Chairman: Are the ministries themselves doing the spadework?

Mr. Caine: To a large extent. They have brought in consulting help, but they are interviewing people in industry and trying to get their views on free trade and how it would impact on their companies. A lot of MITT officials are conducting these interviews.

Mr. Taylor: Here we are, a committee with a fairly broad mandate, funded to underake an important exercise, and considering the engagement of specific help in certain technical areas which will involve the expenditure of a considerable amount of money. Only yesterday we had an outline of four possible projects that we believe should be undertaken, including an impact study on the Ontario manufacturing industry. It may be that we are duplicating--and that is the kindest word I can use--an exercise that has already been under way for some time within government. It is important that we not undertake an exercise in futility.

If there is material in place now that we can draw from, and



I do not want to undercut or undermine in any way the exercise the present government is already undertaking--

Mr. Leluk: I have a question on that.

Mr. Chairman: Let Mr. Taylor finish.

Mr. Taylor: --we should have access to that data base. I am not suggesting our observations and conclusions would be the same. What I am suggesting is that we should not be independently arriving at a data base by our process when factual material is already here.

Mr. Chairman: It is obvious that we should make further inquiries into the work of this committee and make certain that whatever we undertake is not duplicating something that is ongoing.

Mr. Leluk: On whose direction was this interministerial committee struck? Was it at the direction of the minister?

Dr. Switzer: I cannot tell you. The memo I got came from my counterpart in the Ministry of Industry, Trade and Technology. It is the original memo. Whether he did it on the instruction of his minister or whether it was an internal bureaucratic initiative, I really do not know.

Mr. Ferraro: I do not believe the Minister of Industry, Trade and Technology asked that this particular committee to be struck. It might have been the decision of the deputy minister or a number of deputy ministers.

Dr. Switzer: As I am sure you are all well aware, over the last several months our ministry has been involved in discussions on trade with the Ministry of Industry, Trade and Technology, with a specific relationship to the grape and wine situation. Our concern is what we are going to do with the masses of grapes being produced in the Niagara Peninsula, countered by the ministry's concern as to whatever we might do might have an effect on the General Agreement on Tariffs and Trade and thus affect other trade that this province does.

3 p.m.

All I am suggesting is that there has been a real concern about international trade in the Ministry of Industry, Trade and Technology relative to agriculture for a lot of months. I cannot help but wonder if this thing did not come out of the initiative from Mr. MacDonell related to that overall concern of our interaction with the US.

Mr. Chairman: It may be we just did not ask the right questions. We are wondering why we had not heard about it. We are not faulting you people. You are the ones bringing it to our attention.

Mr. McFadden: There is one thing I would like to get a clarification on. I remember distinctly when we were chatting about competitiveness Mr. MacDonell said that in six weeks or two

months he could come back here with the results of this study being undertaken.

I just want to get a clarification and maybe nobody here is quite sure. Are there actually two studies or do you believe that report we are going to get in two months is actually the result of this committee? So we have this committee and this study being done in the ministry as well. We certainly have a lot of information.

Mr. Caine: The study George MacDonell, the Deputy Minister of Industry, Trade and Technology, was referring to is the one the interministerial committee is being informed about and the progress report on that. He was going to come and inform you about that in six weeks. That interministerial committee was being informed about the progress of work being conducted and is not in a position to supply information because the work is still in progress.

Mr. Ferraro: Did I understand this gentlemen is saying there is only one report on the competitiveness? My understanding is that there are two.

Mr. Chairman: I wonder if Mr. Ferraro could make some inquiries with the Ministry of Industry, Trade and Technology as to what work is being undertaken and consult with myself and Mr. Traficante so that when we enter into contracts to have work done we make sure it is all done co-operatively.

Mr. Ferraro: You can count on it. I have a little embarrassment, to say the least, at the revelation today that there is a committee in place to some degree duplicating what we are trying to do. On the other hand, I do not think we should prejudge.

Mr. Cureatz: Do not commit yourself to anything.

Mr. Chairman: No. In fairness to you and the ministry, Mr. MacDonell has indicated to me privately that his ministry would be completely at our disposal. It is just that you do not know where to tap when they say that. He also indicated he had other submissions he was prepared to bring to us.

Mr. Ferraro, you have been sitting every day since then so you obviously have not had a chance--

Mr. Ferraro: Might I say, too, in defence of the action that perhaps certain ministries have taken, as Dr. Switzer has said, it commenced two months ago which was right around D-Day. Bearing in mind the concerns of Ontario and Canada, perhaps it was astute on their part while the government found its way that they take unilateral action. I do not share to the same degree the concerns of some of the members.

Mr. Taylor: I hope you do not become an apologist for government.

Mr. Ferraro: I am not. Just the last 42 years, that is all.

Mr. Mackenzie: There can be criticism we may not have been a little more informed or more quickly informed. It is obvious we have to be tied into any information they get. There is no defence needed of any ministries actually involving themselves in this kind of research. I would hope it is ongoing in any event.

The only points that need to be made here are that there is no defence of the committee being set up by the ministry, though possibly we should have been informed a little more clearly of exactly what was being done. Maybe we did not ask some of the right questions. Second, we have to make sure we have access to exactly what they are trying to find out and get the information as fast as we can. That is the only issue as I see it.

Mr. Chairman: We must not lose sight of the fact that Mr. MacDonell was our very first witness. It was when Mr. Wonnacott was here that we were starting to come to grips with the idea--at least I was--that we needed a lot more in the way of research.

Mr. McFadden: The kind of work I know the ministries are capable of doing is first class. Our concern is that this committee have the benefit of whatever is developed. I do not see how we would be playing much of a role here if we were doing our research, hearing witnesses and making findings to discover that some other study is going in another direction or viewing the problem in a different way and coming up with conflicting answers while we have not made an effort to resolve the conflict within our own operation.

Given the fact that a federal task force and other provinces are going to get involved it is very important that Ontario appear to have its act together on its research, if nothing else. I know Mr. Ferraro will see that is done. Our major concern is that we know what is going on and where; to be able to see the research and know that nothing will be hidden on this issue, if possible. I am sure no one would hide it for any other reason than we not know it is going on.

Mr. Ferraro: Might I suggest that we have the people concerned come back to the next meeting of this committee to explain in depth.

Mr. Chairman: I do not know whether the committee thinks that is necessary. I do not think it is necessary as long as we make some contact with the work of this committee and make sure we know what is happening.

Mr. Cordiano: I am sure the chair can make inquiries in that regard and report back to this committee at a later date. I do not know if anyone would disagree with that measure.

Mr. McGuigan: I do not think there is anything that has to be defended or apologized for in any way. If I could step back from my role as a member of provincial parliament and represent a farmer for a moment, I would be damned mad if the people I looked to for advice, the Ministry of Agriculture and Food, were not conferring with these other people from their perspective, rather



than the perspective of some economist sitting here with an overview, with no regard for people and social conditions that Mr. Mackenzie speaks about so often.

In agriculture, we have those same concerns because it is the concern of the local store, church, school and all those things that make up the rural community. The economist does not worry much about those. He worries about the global figures. As a farmer, I would be damned mad if these people were not looking into it, even though there might be some duplication of effort.

Mr. Chairman: Unless there is an objection, I do not think there is any need for an apology or explanation. Now that we know, we will proceed with that knowledge and make contact with the committee. Let us get on with the issue before us today, free trade.

Mr. McGuigan: I have a lot of questions to ask. I have been expressing some of my apprehension to the agricultural industry in facing the competition of the Mississippi Valley and the Mississippi transportation system. When you counter that, in Ontario we are exporting 30 per cent of our hogs right into the heartland. Could you tell us why that has occurred? I have attempted to, but perhaps you are better able to explain our success in that market.

Mr. Seguin: That is a very good question because it came up as a countervail issue.

Mr. Chairman: If Mr. McGuigan came over here and the rest of you had seats at the table you would not have to be playing musical chairs.

3:10 p.m.

Mr. Seguin: As the countervail issue progressed, the question raised by Americans was the sudden export of hogs into the United States and we have made some initial studies into this. It would seem that Ontario hog producers are very competitive, given the relatively cheaper feed grain production in the province.

Combined with that is the hog processing industry in the United States, which is extremely competitive, slightly over capacity and facing what you might say is a slightly lower than expected hog population. It is looking for extra hogs to throw for product lines and for leaner hogs such as those produced in Ontario. The combination has made a demand pull from the midwest, and that is being worked to our favour.

The other factor is some of the problems in our domestic processing industry. We are not quite as efficient as the US, and there is a little less demand pressure in the province. So the combination of factors has encouraged the shipment of hogs south. On top of that, you have the value of the US dollar, which really gives that extra little push to our hogs going south. In spite of the fact that the countervail has been on for a while, we still export a large number of hogs south. We assume these pressures are going to be there for a while.

Mr. McGuigan: But they have a higher corn yields than we do; they are in the heart of the corn belt. Why do you say we have cheaper feed?

Mr. Seguin: If you look at the complete cost of production, particularly the cost of land, you see that in spite of those higher yields, the cost of land down Iowa, Illinois and Indiana, is far higher than the cost of land in any prime parts of Ontario. If a farmer is paying that price for land, he has to get extremely good yields to compare to our farmers here. I know it is surprising, because--

Mr. McGuigan: I thought our land value was as cheap as theirs.

Mr. Seguin: Not on average. I know there would probably be examples where we can pinpoint that it is but, on average, no, it is not. Our cost is significantly below theirs. It counterbalances that increase in yields. We were caught by surprise by how competitive we are. It is to the benefit of our hog producers.

Mr. McGuigan: In Alberta, they feed barley to the hogs that go to the United States, but we feed hogs corn in Ontario, do we not?

Mr. Seguin: Primarily.

Mr. McGuigan: Not much barley?

Mr. Seguin: No.

Dr. Collin: Mr. Chairman, could I help a little bit on this point? Looking at some of the statistics on that basis, in response to Mr. McGuigan's comment, the information is that last year, for example, was that there were 435,000 live hogs shipped from Ontario to the US. This only represents 56 per cent of Canadian shipments, very sizeable shipments from the prairies: Alberta, Saskatchewan, and Manitoba.

Mr. McGuigan: You mean barley-fed ones.

Dr. Collin: Right. Barley-fed ones--for a total of 776,000 head of hogs into the US. It is right across the comparative advantage as Bob makes the point on the first--

Mr. McGuigan: One explanation I saw was that the barley-fed hogs were leaner and therefore they had an advantage in the US market, but the Ontario hogs are corn fed, are they not?

Dr. Collin: That is right.

Mr. McGuigan: So that is really not a complete answer.

Dr. Collin: No. The point is that we only represent 56 per cent of the sales.

Mr. Ferraro: First of all, congratulations to Dr. Switzer and his staff for what seems to be a very comprehensive submission, to say the least. Now that I have secured Dr. Switzer's vote at the next election--

Dr. Switzer: Did you ever have any doubt?

Mr. Ferraro: No. Not since the last time I beat you at golf, or I let you beat me at golf.

My question is in relation to the three final recommendations for suggestions made to this committee. I wonder if Clay would address this one in particular. If memory serves me correctly, the first suggestion you made to this committee is that we give proper consideration to OMAF's position. Could you expound on what you mean by proper consideration?

Dr. Switzer: I will start if I may, Mr. Chairman, and then I would like to invite one of the others to make a comment as well.

I guess there is always concern among some of us who have been in the agricultural business for quite a while that there is a tendency to look at agriculture as not as big an industry as some of us know it is. What we are really saying when we look at proper consideration is that you do think of agriculture as a major industry in this province, one that does produce \$15 billion worth of value-added products. It is really a megabusiness and I can expound on this, as could Mr. McGuigan, for a long time. But I think that was the reason, Mr. Ferraro, for the comments.

We hope this committee will not get carried away by its deliberations in the manufacturing field, as an example, and feel the agricultural field is not also of great importance to this province. We are really making a little statement here that we make fairly routinely when we talk about agriculture--

Mr. Ferraro: I never would have suspected you of having an inferiority complex.

Dr. Switzer: --brought on by some of the comments that have been made from time to time about agriculture in this province. I do not know whether other members of the staff would like to add to that.

Mr. Thompson: When we talk about multilateral trade negotiations, international agreements and what have you, traditionally agriculture gets left out completely and/or at times involves tradeoffs, particularly in the area of trade enhancement, as to whether you trade off agriculture for the sake of gains in manufacturing. I repeat the words of our deputy that it is just fair and proper consideration.

Mr. Knight: I noticed a different thrust in your presentation from what we had from the Canadian Manufacturers' Association this morning. If I read them correctly, they were suggesting a free trade arrangement with the United States out of fear of protectionist attitudes on the part of the US, mainly to



secure their present access and to enable them to increase their access as far as exports were concerned.

I noticed there was no clear or implicit fear of protectionism on the part of your presentation. You recognize the countervailing problem and actually have indicated a program to recognize and deal with it. I found that interesting and wondered, if we went for a free trade arrangement, what you saw in specific problems in supply-management programs as far as the agriculture industry is concerned.

Dr. Switzer: Perhaps I could make a layman's comment and then ask the specialists to respond. It seems to me there are commodities in Ontario agriculture in which we are quite prepared to compete with anybody in the world. Hogs is a good example where we can compete with anyone. However, there are other commodities in Ontario as to which we would be very concerned about their ability to persist if we went into free trade.

There are many fairly obvious reasons for that. One is that we live in a cold climate and in a cold climate you cannot compete agriculturally with a warmer climate. That is one that would hit me right off the bat. As Dr. Collin said earlier, we are looking in some ways at a sectoral thing. I will leave it at that from my broad layman's view and ask some of the experts to respond better.

Dr. Collin: May I pick that up a little more? I think your comment was that you do not have a sense we are presenting a fear of protectionism. There are three points I would like to make and repeat what the deputy has said.

The classic example is the lack of competitive advantages in poultry where we know very well that if you do not have to heat broiler barns, as is the case in North Carolina and Georgia, it reduces your cost of production. If you can obtain the cost of labour in those mid-Atlantic states, that reduces your cost of production. It would be very difficult to be competitive in those kinds of commodities, broilers-in particular.

2:20 p.m.

That is why supply-management national plans have been developed. We are secure under the General Agreement on Tariffs and Trade agreement that the supply-management national marketing plans stay. That is an assurance of GATT. I guess historically I go back to the point that where we are today in 1985 is the result of 200 years of development, research and marketing legislation. I personally find it hard to believe that we would turn around that quickly to make a change.

The second point is this. You have to look at the relative advantage in Ontario compared to Quebec or the Maritime provinces. My judgement would be that freer trade would have a much greater impact on the farmers of those provinces, and maybe even in Alberta and British Columbia, than on those of Ontario. We enjoy a relative advantage over our sister provinces in agricultural production.

I would like to make one other point. Talking about committees, we have not mentioned we have a working committee between the federal government and the provinces in the agricultural sector. This is the so-called federal-provincial trade review committee. That committee is in place to encourage dialogue between the feds, who have policy responsibility in trade, and the regional concerns of the provinces.

One aspect of that committee work is the sense that there can be much more effective trade between Canada and the US if, for example, Ontario can speak freely and openly with our colleagues in Pennsylvania, Ohio or Michigan. This is the tradition in agriculture in North America. There is good dialogue. The issues and concerns in Ohio are not that different from our concerns in Ontario.

Those are the three points that give us promise and our reason for no great fear. We do have an advantage in some commodities. We have an advantage in Ontario compared to most other provinces in Canada in the competitive sense. There are mechanisms to address these, and, through open dialogue, find solutions to immediate trade issues such as chloramphenicol and the shipment of hogs.

Mr. Cordiano: I want to ask if the Ontario Ministry of Agriculture and Food has its own impact study on free trade, or is that part of the co-ordinated study now taking place?

Mr. Seguin: Richard is working on a ministerial committee. As part of it, we have committed our efforts to doing a smaller scale impact study following what the Ministry of Industry, Trade and Technology is doing, but it is reduced because we do not have the same amount of staff to devote to it. We are trying to do an impact assessment, going to the industry to find out where they have been hit, how hard, how we might respond, effectiveness, benefits, costs, working through the figures, and doing the study. It is on a reduced scale to the efforts of our sister ministry.

Mr. Cordiano: That would be part of the overall study now being done.

Mr. Seguin: They have left that to us, reflecting our greater expertise and knowledge of the industry. They will take on their specialties.

Mr. Cordiano: You would not be able to give us an answer as to the impact now.

Mr. Seguin: Not a detailed one.

Dr. Collin: May I make another comment on that which might help? I do not think we have the resources to look at each commodity in that sense. There is a dialogue and a plan that the federal government, through Agriculture Canada, has initiated. Our people from the ministry work with them on commodity studies. This is very much a planning process that Agriculture Canada is

providing in leadership to look at strategies for individual commodities in agriculture. This has been an ongoing process for two or three years. It is very much looking at relative advantages for production in Canada, trade opportunities, productivities, other things.

Mr. Slemko: I have a comment specific to your question. There is a group called the Canadian Horticultural Council. In March this year it presented and released a very preliminary but rather thorough report on the potential implications of free trade with the United States in the horticultural area. If it is your wish, we could make that report available. It is preliminary, but it has looked at the horticultural industry, fruits and vegetables and the impact free trade would have on the Canadian and the Ontario horticultural industry.

Mr. Chairman: I will leave that up to the committee.

Mr. McFadden: This is a preliminary matter. I do not know if we are deliberately keeping the committee in the dark. Let me indicate some of the knowledge we have of agricultural issues. I wonder if it is a new interrogation technique. You are in the light and we are in the dark. You probably could not see the chairman's face from where you were sitting.

I want to direct a question on a fairly significant sector, the brewery-distillery-winery area, particularly the wineries. We are in a situation, as I have read about it and understand what was said today, of a surplus in grape production. Our wineries are producing a product that, in part, is becoming more palatable. It is getting more of a market in Canada and, to some limited extent, abroad.

I have heard it said, and this is a macro view of things, that Canadian wines are not very good. We do not produce the right grapes. The grapes we are producing are not suitable for quality wine. There is no justification for Ontario to be in the wine business and we should quietly abandon it. With so many of the good wines, we are using concentrates from other countries. It goes on and on. It is a doomsday scenario. We should quietly close them all out.

Mr. McGuigan: You could not have heard that from an Ontarian.

Mr. McFadden: I have heard it from the odd person here. I am not one of those. I am promoting Chateau des Charmes and Inniskillin wines.

Some people who describe themselves as connoisseurs of wines make it a fetish to pooh-pooh what we do here.

Mr. Chairman: They should try some from Austria.

Mr. McFadden: That is right. They can try some Austrian wine. They will not be around long.



Mr. McGuigan: You could get it at Canadian Tire.

Mr. McFadden: Or Home Hardware. They could get some wine from there.

I wanted to ask your prognosis of the grape and wine industry in Ontario, from a domestic and potential export point of view.

Mr. Slemko: I am pleased to hear your comment that you are finding the Ontario wines more palatable. One of the reasons our domestic wines are improving in quality, as Dr. Collin indicated, is that over the years a great deal of research money has gone into new varieties. In about 1976 or 1977 the ministry put in place a replanting program to encourage farmers to get out of concord grapes and into white hybrids like De Chaunac.

There have been half a dozen committees over the last few years looking at the grape and wine issue in Ontario. As recently as 1983, for fear of retaliation by the Americans, the province removed the 65-cent bottle handling charge on domestic wines and substituted a minimum, nondiscriminatory pricing system that, to be quite candid, backfired on the industry.

The most fundamental problem facing the Ontario wine industry is that the European Economic Community wines are coming in at prices that are uncompetitive to our domestic wines. By and large, one could make the valid point that the EEC is subsidizing its wine industry. To throw out a figure, in 1984 our calculations show that \$1.4 billion has been used by the Europeans to subsidize their wine industry.

3:30 p.m.

That problem of subsidy, or if you want to use the word, "dumping," has been addressed by the ministry and what was formerly the anti-dumping tribunal, now the Canadian import tribunal, in 1982. I attended the sessions in Ottawa then.

With many commodities which are coming into Ontario from the EEC, when we start talking about dumping, countervail and subsidy, the problem is the difficulty in demonstrating domestic injury. Indeed, whole canned tomatoes from the European Economic Community serve as yet another example of this issue, which is being reviewed by the anti-dumping tribunal, which quite willingly agrees that the Europeans were subsidizing the industry. That in itself is insufficient for the federal government to attach higher tariffs to the product. It substantiates the case that either wine or tomatoes are being dumped into the country.

The long-term prognosis for the wine industry is that it will continue to have problems because of the European situation. We had a tremendous surplus crop last year of approximately 30,000 tons of a total 90,000-ton crop. The federal government and the province have agreed to a surplus purchase program which we are anticipating. This is for the 1984 crop.

The early indications are that for this crop year we will again be looking at a 20,000- to 25,000-ton surplus. It is becoming increasingly difficult to find markets for this product because the wineries' own domestic use is not increasing that dramatically now. The bulk of it is going to continue to go into concentrate, into grape juice and into brandy.

Mr. McFadden: Brandy and grape juice?

Mr. Slemko: Yes. In the absence of an unfortunate disaster affecting this year's crop, we are going to be looking at another surplus. We may have to come to grips with the more fundamental or structural issue of how much longer our domestic industry can survive without some sort of protection from European subsidized products.

Mr. McFadden: Does the EEC have a complaint outstanding on behalf of the wine producers in Europe against Ontario? What is the problem--

Mr. Slemko: It is an appeal that is currently being addressed at GATT. Eight months or a year ago, the European Economic Community brought forward the issue of Canadian liquor board policies discriminating against European wines. Domestic wines, for example, in Ontario are marked up at 58 per cent and imported wines are marked up at 123 per cent.

As a signatory to GATT, Canada agreed that over a period of time it would attempt to narrow that differential, in other words, to come down from that 123 per cent markup on imported wines. We are still at that level.

It is for that reason that the EEC has brought this action forward. The jury, if I can put it this way, is still out. The panel in Brussels has not yet rendered its decision, but our intelligence sources suggest that if a decision is rendered, it will find in favour of the EEC and their concerns will indeed be validated, requiring some form of action on the part of the federal government, particularly the individual provincial liquor licensing boards, which are singled out as the major culprit in this issue. We will have to lower the markups on imported wines.

Mr. McFadden: If that ruling went against us and the federal government pressured the province to remove this markup and the province did, that could dig an even deeper hole for the Canadian wine industry. Clearly the price of domestic wine will likely be less attractive against French, Italian and other wines. Would that not be correct?

Mr. Slemko: That is entirely correct and it is further exacerbated by the fact that about two months ago the Italians lowered the value of the lire by another six per cent. Basically, you are looking at a devaluation of European currencies having a tremendous impact on the product--the wine coming in as cheaply as it is. If that continues, our own wineries are going to face some increasingly difficult times.

Mr. McFadden: With more and more surplus. Is there anything specific you can see to recommend for that particular industry which would make us more competitive internationally and/or more attractive to our own domestic market?

Mr. Slemko: A number of alternatives have been looked at over the years. However the issue is viewed, in the absence of a decision by the federal government to impose some sort of protective measure, be it a higher tariff or what have you, on imported wines, a lot of other solutions have failed, and that seems to be the fundamental approach.

The United States is very concerned about the very same issue we are concerned about, EEC wines in the United States. It has just recently adopted the Wine Equity Act and has told the EEC, "This where we draw the line." It has essentially put quotas on wine from the European Economic Community which has oceans of wine and is looking for any market for the product.

Mr. McFadden: I had heard that we have tried to create a puddle of our own wines in Europe. I think it was Inniskillin that had tried to develop a market in France and elsewhere. Has that been at all successful?

Mr. Richards: No, I do not think that was the intent. I think the major reason Inniskillin and Chateau des Charmes ran those promotions was the publicity value for their brands reflected here. They had CBC's The Journal to cover it and got good press coverage, so it was good value.

Mr. McFadden: Do we know if the French ever bought any of our wine? All we know is they got a share.

Mr. Richards: We had to make a sale.

Mr. Richards: I believe an Air Canada captain took a case over to a restaurant, but the thing was very clearly orchestrated to reflect the public relations value back here for those particular wineries. They are the small end of the winery scale too. Those people are the boutique wineries.

Mr. McFadden: Mr. Ziraldo's relatives brought it over.

Mr. Richards: It could be. Some of the larger local wineries, Brights, etc., have taken specialty items into New York state, but it is not going to offset the problem. They have done reasonably well with some specialty items such as the cold duck types, but we are not competing head on with a Taylor brand in New York state. As Mr. Slemko says, there are oceans of wine in the US, Chile, South Africa and Europe, so they are in very few homes.

Mr. Chairman: How well do our wines do in other provinces?

Mr. Richards: I am not really sure of that. My guess is that Quebec is out because Quebec has its own industry taking in concentrate and producing its own wines. British Columbia has its own wine industry.



Mr. Slemko, you might comment on how some of it might have gone there.

Mr. Slemko: Many of the major wineries located in Ontario also have winery operations in other provinces, with notable exceptions being the maritime provinces and British Columbia. In British Columbia it is really a cottage industry per se. If Ontario wines are doing well in other parts of Canada, it is the prairie provinces. Quebec has its own industry, as Mr. Richards said. Quebec is a major bottler of wine. Most of the wine sold in Quebec is brought in bulk concentrate form and rebottled in Quebec through the equivalent of our liquor control board.

Dr. Switzer: Just a couple of comments for information and interest. About a year ago we established what we called a long-range task force to look at the grape and wine industry in Ontario. We asked Jack Tanner from the University of Guelph to head this up. He has a committee made up of three growers and three winery representatives.

They are looking at some way of rationalizing the industry several years down the road--not this immediate problem Mr. Slemko has been talking about, but what are we going to do five years from now? There are a lot of things they have looked at from the production point of view and we will be getting a report on some of these fairly soon. Are we growing the right varieties? Do we have too many acres?

3:40 p.m.

When I look at the gentleman from Guelph on my left, I must say that if it were possible to take a municipality the size of Guelph and have all the folks in Guelph who make wine in their basements use 50 per cent Ontario grapes instead of 100 per cent California grapes, the number of gallons of juice used to make wine would be astronomical. I do not know how one goes about convincing the home winemaker that juice from Ontario grapes is just as good as juice from California grapes.

There are many things involved in the grape industry that are worrisome to us and we are looking for ways to solve the problem in the long term.

Mr. Mackenzie: I was intrigued by your last comment about whether promotion can achieve larger use of Canadian grapes in the home winemaking industry. Is there any potential for increased production of grape juice? I am thinking of our promotion of apple juice to try to offset some of our imports of citrus products such as orange juice and grapefruit juice. Is there room for movement in the domestic consumption of grape juice with an eye to offsetting some of our imports?

Dr. Switzer: We think so. Perhaps Brian Slemko could comment more knowledgeably than I. Two or three months ago I attended a tasting panel at Vineland. They brought in quite a few people to taste different types of nonalcoholic grape juices that were being prepared, some of which, to my uneducated palate,

tasted as if they could have potential. Perhaps Mr. Slemko would like to add something to that.

Mr. Slemko: We are currently having discussions with a major company in Ontario, Cadbury Schweppes Powell, that is interested in getting into frozen grape juice in a much bigger way. That will go a long way towards utilizing the bulk of what always remains in surplus, and that is the concentrate. Unfortunately, the concentrate does not improve with age. It deteriorates in quality, so it is not a matter of being able to keep it in storage year after year.

The second comment I would like to make is that the Ontario Grape Growers' Marketing Board is currently, through Foodland Ontario, sharing in what we believe to be a significant and important promotional program for grape juice. We believe that will be of some help in removing the surplus and, more important, in getting the consumer--indeed, the Canadian consumer--aware that we grow grapes in Ontario and can make grape juice and that it does not all have to come from California.

Mr. Mackenzie: If you drink a fair amount of juice as my gang has done over the years, you will have noticed that today you are paying \$1.39, \$1.49 or \$1.50 for a small frozen package of the better quality orange juice brands, while you can still often buy some of the grape juices--I saw Welch's the other day--at 89 or 99 cents.

If you look at the store shelves, you can see it has been the purchasing practice until now that there are one or two small rows of grape juice and there are bins of orange juice, even at the higher price. That might be an area for some major promotion. I can see a number of advantages not only for our own use, but also for some of the dollars that go out.

Mr. Richards: Apart from the shared-cost program we participated in with the grape board this year, out of our Foodland Ontario advertising budget of \$1.7 million, this fall \$430,000 is devoted to juice promotion, which will include apple, grape and red juices. We are just waiting for the freeze to come off so we can buy the media to get behind it.

Dr. Switzer: What he is saying is we have submitted a letter.

Mr. Richards: I understand the freeze is off, but we are waiting for the confirmation in writing so we can buy media space. One of the problems the grape juice people face when they research it is that mothers are reluctant to buy purple juice because of the staining qualities. As for the white juice, which gets around that problem, the price is so high that people substitute apple juice. We have more promotion with Welch's, the grape board and ourselves this year than we have had in a long time. We are doing our part.

Mr. McGuigan: Just on the varieties, there has been quite a bit with Inniskillin, Charal Winery and Vineyard in Kent county and one in Essex county. It has been based on the new

planting of white grapes. My question is: where does the surplus exist? Is it across the varieties or is it in the older red varieties?

Mr. Slemko: Yes, indeed. Most of the surpluses that have existed over the last few years have been bought by the federal government through the agriculture products board. We are participating in that program with them in 1984.

In general, the surpluses have been in the Concord grape area. It is an older variety of grape. The new varieties that research work has been going into over the last few years are also a reflection of a change in consumer tastes. Several years ago red wine was a more popular drink than it is today when white wines have captured much more of the market. Of that 30,000-ton surplus that was a carryover from the 1984 crop, roughly a third of that was in the Concord red grape area. The white grapes have in general been bought by the wineries. That is where their market is.

Mr. McGuigan: You might better use that money to pay them and do something else with the land.

Mr. Richards: Just talking about your prices on frozen grape juice, that was McCain's brand. There was nothing of Ontario in there. It is all Argentinian concentrate, so that is another problem.

Mr. Taylor: This morning Mr. McGuigan indicated--and I do not know that he was talking in any official way on behalf of the agricultural community--they probably suffered enough of lower tariffs. That is how I would summarize it. Correct me if I am wrong. The agricultural community in general probably does not need any further lowering of tariffs either in a general or bilateral way. Do you have any views on that?

Mr. McGuigan: If I can expand on the question. We in agriculture are not so concerned about tariffs. It has already been mentioned here--and I want to put a lot of emphasis on the fact--that under GATT, they allow us to have supply management programs, such as we have of the five commodities you mentioned, provided we give the countries that export to us, such as the United States, their traditional share they have built up over the years.

For instance, poultry is the most serious situation. You indicated it is nine per cent of Ontario's agriculture. Almost 100 per cent of poultry would be wiped right out based on the differences in our two industries. We have gone through supply management in those poultry products largely to get the protection of the GATT agreement. We give up about five or six per cent of the market in order to save the other 95 per cent.

3:50 p.m.

The US system works this way. It is owned largely by the brewing industry because it is the biggest buyer of grain in the United States. The brewing industry controls grain companies. They have the byproducts--the wet and the dry brewers' grains. If you



make a beer out of it, you have an excellent livestock food. It makes great sense for them to integrate beer, poultry, and other food-producing companies, such as the cereal companies, and so on. They are taking over that whole industry.

The result is that in the United States--I am not a poultry producer, but I listen to them--they say there is not a single farmer, as we know farmers, left in the poultry industry. The figure they use in Ontario is 15,000 birds in the average flock. In the United States, it is in the hundreds of thousands. There are units there which produce millions of birds. They have taken over that whole industry and made it into a poultry factory rather than having farms where the farmers grows their own feed, feeds it to the chickens and integrates them with other crops on the farms.

We have been able to retain the poultry industry, not so much through the mechanism of the marketing board system but because the marketing board system allows us to control the imports. That is something the farmers will perhaps not readily admit, but it is one of our reasons for so strongly maintaining our marketing boards.

The way the system works in the United States is that there are cycles. There will be periods when too many poultry are being produced and eggs will become very cheap, below the cost of production. In the 1970s, when our marketing boards came in, eggs were down to around 30 cents a dozen. Everyone agreed it cost 40, 45 or 50 cents to produce them. The industry will go through a period like that, and the beer companies can absorb it. Then they will lock a lot of producers out and the price will go up to 90 cents. Then the price continues for a while at 90 cents, which encourages a lot more people to come in, and there is another cycle of 30- and 90-cent fluctuations.

Eugene Whelan was great when he was comparing those things. He considered that on the average we did a better job for our consumer than they did. There are huge losses in that system of cycling. There is the destruction of capital at every low cycle. The capital invested is destroyed. There is a German economist named Joseph Schumpeter, who talked about the destruction of capital, in case you want to look it up.

That is the system we are trying to avoid, and we are trying to keep that industry in the hands of farmers so that it is in the farm communities, the villages, the small towns, and all that infrastructure is retained. I cannot vouch for this with any personal experience, but the poultry people will tell you there is not a single farmer, as we know farmers, in the poultry industry in the United States.

If you believe what the poultry people say, that industry would be gone. It is nine per cent of Ontario agriculture. To a lesser extent, the same thing applies to the other five commodities that are supply-managed. Not all of our agriculture in Ontario is supply-managed. There are only five items out of 26 marketing boards covering 55 or 60 items. It is in the American psyche. They have antitrust laws that specifically prevent marketing boards.

It is the Sherman Antitrust Act in the United States. If you talk about even two poultry farmers getting together, there is a spot waiting for them in Leavenworth. We have specifically exempted the marketing boards from our antitrust legislation.

Mr. Taylor: Dr. Switzer, in responding to my question, you could leave aside for the moment those commodities governed by supply-management. I appreciate the distinction and the limitation in connection with those commodities, and let us assume protection under any new arrangement for those.

Dr. Switzer: I will ask Bob Seguin to respond since he is the most knowledgeable.

Mr. Seguin: I refer you to the background paper presented, appendix A on page 27, on the various tariff rates. You can see for most of these products that are not supply-managed it is very low in comparison. They are as low or lower than the US .

In the case of agricultural tariffs, this is not a horrendous issue for us. To go any further would make a marginal difference. The issue that gets the agricultural food industry most aroused is the nontariff barrier, manipulation of health regulations, labour regulations--

Mr. Taylor: May I stop you there for a moment? That was my impression until I read material to the contrary. Our tariffs on those agricultural products were so low anyway that they were not significant for survival. You have confirmed that for me.

Dr. Collin: Could I add to that? You see the data in the appendix A table which shows we are proceeding with the US to an almost equivalent tariff, if you want to look at it that way. The relatively high tariff is important to the horticultural industry. There is real concern for Ontario and other provinces to protect producers during production, whether strawberries or other fresh commodities. There is agreement in trade policy that we need relatively high tariffs to protect fresh commodities from any dumping from one country to the other.

Mr. Taylor: So you would presumably deal with those on a selective basis within the ambit of a general agreement.

Dr. Collin: That is right.

Mr. Taylor: That has been handled in the past and could presumably be handled in the future. Would you agree?

Dr. Collin: Yes. The objective of the last round in the General Agreement on Tariffs and Trade was to obtain some reasonable tariff protection in season for horticultural products. It was accomplished quite well.

Mr. Taylor: There was another aspect we were going to deal with in reply to my question. That was the issue of nontariff barriers. I kept you off it in your response.

Mr. Seguin: I will state quickly that some harsher concerns reflect the nontariff barriers. Dr. Collin mentioned one earlier on hogs, the ban on the use of chloramphenicol by some states which affected our exports of hogs. Fortunately, none of the states to which Ontario exports hogs banned it. They did so in the case of the prairie provinces. It is just the use of a nontariff barrier to manipulate trade. That is the most harsh because there is no formal mechanism for dealing with it. It comes back to a more face-to-face negotiation.

Mr. Taylor: Do you find more sophistication developing in the art or science of nontariff barriers?

Mr. Seguin: I defer to my colleague who may know more about the trade problem.

Mr. Richards: I am not expert on it, but the answer is probably yes. The hog farmers in Iowa lobbied their state legislators and came up with some very creative approaches, such as the chloramphenicol ban. They also slowed down trucks at the border from Manitoba and did other things you would not usually see Americans doing.

There is a movement in the US towards protectionism on everything from raspberries to softwood lumber and steel. With the higher value of their dollar, they are being very defensive. The people who have honed it to a fine art are the Japanese.

Mr. McGuigan: In furniture too.

Mr. Richards: There is no reason why you cannot come and sell here. There are a thousand hurdles that are not tariffs before you get there.

Mr. Taylor: As I understand the concern in general, not only in agriculture, it is on the growing ingenuity and application of nontariff barriers. This would be an important item for discussion in any continuing GATT round of negotiations. Regarding the agricultural community, do you feel you could support operating within the general philosophy of GATT as opposed to further bilateral arrangements?

4:00 p.m.

Dr. Collin: Our basic thrust has been a preference to work within the GATT negotiations rather than bilaterally. It matches most of our directions.

Mr. Taylor: I mean to the exclusion. We have had the option of going both ways at once. I am assuming now that you are saying you are content to forget about any bilateral talks. Let us deal with these items within the world context.

Dr. Collin: Our thrust and reliance is on a GATT approach, but I take you back to my comment at this federal-provincial trade committee. One of its objectives is to assure that there is an opportunity for bilateral consideration. The aspect of communication, in particular in Canada and the US,



on bilateral issues is very important. Maybe the horticultural industry has been one of the most effective in working out bilateral relationships between Canada and the US.

Mr. Taylor: I understand the need perhaps for a permanent mechanism to deal with ongoing differences, disputes or potential problems. That is one issue as I see it. I accept the need to have a mechanism for an ongoing dialogue to resolve those in advance of confrontation, if I could put it that way. My question really dealt with the need on our part to initiate bilateral talks in regard to agriculture, and I am talking in general terms, apart from our involvement in further GATT talks.

Dr. Collin: You may recall that I did make mention that Mr. Wise, the Minister of Agriculture, meets twice a year on a regular basis with his counterpart in the US. We are encouraging our deputy to meet on a regular basis with regional state people, maybe not to negotiate a bilateral agreement, but to facilitate matters and get that feedback to Mr. Wise, who has the responsibility for working out those kind of bilateral approaches. I would like some of the economists to comment on this, but my personal approach would be that you have to utilize both as good avenues.

Mr. Taylor: I am not talking about utilizing, I am talking about initiating a separate treaty. What I am distinguishing is the ongoing process in terms of resolution of potential problems and maybe bad-faith interpretations of what we already have. I am distinguishing that process or mechanism from the need to initiate a new bilateral treaty in order to address problems of some urgency that may be facing us or our concern of the need to react or respond to problems that are facing our counterparts in the agricultural community in the United States.

Mr. Seguin: I will see if I can answer this in the way you are asking. We have been passive in the past, and the initiation of this round of bilateral talks has come from other sectors, not so much from agriculture. There are benefits for us to participate, but I would echo what Dr. Collin said, we would probably use the bilateral talks more as a mechanism for back and forth discussions. I prefer the GATT process, because that gives us a wider avenue to reach from, to expand our market opportunities, take advantage and, in trade policy negotiations, perhaps play our partners off each other where there are gains to be made. Bilateral trade, back and forth with the US is pretty straightforward, black and white, and there may be benefits from working in a broader group and using different groups to play off each other where our concerns, both as a province and a nation, may be in jeopardy.

Mr. Taylor: You might have some allies.

Mr. Seguin: There will be cases where perhaps the Europeans, oddly enough, may be allies, or the Americans could be an ally with us against the Europeans.

Mr. McGuigan: Is that what Mr. Stone said?

Mr. Taylor: Yes. Mr. Stone indicated that the broader form would possibly provide more comfort for Canadians, because you presumably establish allies, alliances or friendships there that might give you more weight in your negotiations. That is the gist of it. It was one of the points he made.

Mr. Morin-Strom: I have a question on marketing boards. On our entering bilateral negotiations, one of the points the Americans have made is that what they want to see from Canada is a proposal that would cover free trade on substantially all products being traded between the two countries, with only a very limited number of exceptions. At the same time, I somehow have the impression that the Americans view the very existence of marketing boards as an unfair trading practice. If they were to put as an absolute condition to a freer trade arrangement the elimination of all marketing boards in Canada, or let us say in Ontario, what might be the consequences of that action, and would it be absolutely unacceptable to agriculture in Ontario?

Dr. Switzer: Mr. McGuigan answered the question very well with regard to the chicken situation. I would turn it over to Dr. Collin for comments about other marketing boards.

Dr. Collin: You are making the assumption that the US people, whoever they are, are concerned about marketing authorities in Canada. Some farmers I have talked to really look to Ontario and Canada as having an ideal marketing system. I do not really know who you are identifying in your comment about people in the US.

Regardless, you have to remember, as Mr. McGuigan said, supply management boards, which are usually the most obvious ones, represent five commodities and about 33 per cent of the farm-gate value. We talked about broilers. We talked about eggs. We talked about chickens. One of the ones you have not talked about is the dairy industry. You can recognize that the fresh value of fluid milk is a very important regional aspect. I have the impression that maybe Canada's dairy industry is less supported than most other nations' dairy industries, including the US.

I would go back to my other point. The majority of products sold through the authority of marketing boards do not have price-setting authority. They do not have a crop-size-setting authority. They are basically negotiating boards. I suspect there can be no real complaint about groups of farmers going together to effectively negotiate condition of sale as it applies to soybeans, our grain crops, our fruit and vegetable crops. It is a sense of negotiation. This is why I become a little concerned about and put the question back to you: are you sure the US is saying that? I have not heard it.

My other point is, with marketing boards you have to be quite sure of what you are saying. There are 25 marketing boards or authorities in Ontario and only five of them have supply-management authority. You have to think of it as a much more complex issue. I would expect negotiating boards would survive. I cannot see any other way of maintaining a sense of family farm. If we walked away from the GATT principle, I guess

supply management boards would be vulnerable, as I understand it.

Mr. Morin-Strom: How would our dairy industry specifically withstand free trade in dairy products?

Dr. Collin: You have to look at it in two components, the fluid milk and the processed product.

Fluid milk, because of the sense of distribution and regional production, certainly would fare very well. Our industry is extremely competitive and is renowned as having high technology and the best genetics in breeding.

4:10 p.m.

Our concern would be the processing sector. Economies of size in some US dairy operations and other international processing aspects of dairy products do have great advantages. It would probably be the process dairy product that would suffer most. That would have a tremendous impact in Ontario and even more in Quebec.

Mr. Morin-Strom: On dairy products, my impression is that the prices in our stores are much higher than they are in American centres across the border. It would appear that we would be uncompetitive at the grocery store level in things such as butter, ice cream and milk.

You have not brought up the subject of northern Ontario agriculture, which has generally been hard-pressed and has been declining somewhat in numbers in the field in recent years. What potentially could be the fate of agriculture in northern Ontario of a move towards freer trade arrangements?

Dr. Switzer: For agriculture, my concept of free trade is that if you have completely free trade without any subsidies or anything else that works against it being free, the people who are going to have the greatest advantage are those who have the best growing conditions. The people who will have the greatest disadvantage will be those in the areas that have the worst growing conditions. That is the answer to your question. Under completely free trade, the worse the growing conditions, the greater the disadvantage.

Mr. McGuigan: It is a small market. The high transportation costs would protect you to some extent.

Dr. Switzer: In certain commodities. As Dr. Collin said, I suspect it would be hard for anybody to compete with milk production around Thunder Bay because there is a nice little pocket there of farmers who produce milk and who do not have to take it far. It does not matter what you do; they are going to have that market.

Mr. McGuigan: They fare a little better than we do.

Mr. Morin-Strom: Is not northern Ontario milk protected now on the basis that all milk sold in northern Ontario has to



come from northern dairy cattle?

Dr. Collin: It is a really complex issue. I will try to explain it. I am no expert but maybe somebody can help me.

There is a quota policy of the Ontario Milk Marketing Board that maintains production in the north for consumption in the north. There are also three pools to provide for the transportation and delivery of fluid milk within the north. The deputy minister has mentioned the Thunder Bay area. There is a further one in the northwest and another is the northeast pool.

Within those general comments, a quota production is assured for the north by the policy of the milk board. It says, "Yes, we want to maintain production," and it does it through quota regulations in the north. There are three distinct pickup areas in the north to provide transportation to the processing plants for milk.

Mr. Morin-Strom: The existence of that arrangement presumably means that northern Ontario dairy producers would not be competitive with those in southern Ontario if they did not have that protection.

Dr. Collin: I think the deputy minister has explained that if you look at the Thunder Bay area, because of geography, the producers have a marked advantage. They have relatively low land costs and extremely good forage production. They have many good advantages. However, in the Rainy River district, where access to the US markets is very open, retail milk could come into the Rainy River district quickly and easily because of the transportation and the closeness to the US. We have to look at each different component. They would suffer by comparison.

Mr. Chairman: I have a question about the processing and packaging industry. When we look at the manufacturing sector, we are concerned about economies of scale and the difficulties we would have in competition. We do not have that problem generally with the agricultural industry. We do in packaging and that sort of thing. You do not seem to want to be involved with meat packing in particular. Is that correct? If so, why?

Dr. Switzer: Brian Slemko might best answer that.

Mr. Slemko: Mr. Chairman, your observation is partially correct. Generally speaking, the food processing industry in Ontario has fared quite well but in comparison to other countries such as the US and some European countries, we are quite behind in our technologies. That is in part a function of the fact that we have a much smaller market than the US or the European community. Over the last several years, efforts have been made to assist our processing industry to enable it to expand and modernize its operations and be competitive with US counterparts. The processing industry will survive and remain quite healthy if it is allowed to compete on a fair versus a free basis.

I might cite one example. One of the areas we have been looking at, and the government has invested money in, is the

tomato paste industry where annually we import about \$60-million worth. Mr. McGuigan would be the first to verify we can grow tomatoes very well in Ontario but our efforts have been concentrated in tomato paste because we know that without some protection--and there is a 13.6 per cent duty applying to tomato paste coming in from offshore--we would not have a paste industry in Ontario. We cannot compete with tomato prices. A ton of tomatoes in Ontario is valued at about \$112 compared to the California price of about \$60. Our industry has had to adjust and recognize that in the raw product other countries have a significant advantage

On the packaging side, which is the--

Mr. Taylor: Excuse me. I do not want to interrupt you, but that is interesting because it is almost double the price. There are higher land costs in the US, from what I understood when you were referring to other costs--that may not apply here but I suspect it would--and yet we end up with double the price for the raw product. Why is that?

Mr. McGuigan: They get 32 tons to the acre and we get 20 tons.

Mr. Slemko: In addition to that, which is the key answer, if you wanted to compare California with southern Ontario, the input costs in California are far less. They do not have to irrigate or sprinkle as often as we would. Their labour, fertilizer and pesticide costs would be lower. Given all that, that does translate on a tonnage comparison to double what the California producer can get. Mind you, it is unfair, and Mr. McGuigan's point is very valid. In California, they can get 35 to 40 tons per acre compared to an average of 20 to 22 tons per acre in Ontario.

Mr. Richards: Mr. Chairman, your question is massive in scope, recognizing you are dealing with everything from the brewing industry to confection, to cheese, to packaged foods, and there would be different implications for each of those under any kind of free-trade agreement.

Mr. Chairman: But all of the food processors are very negative about the concept.

4:20 p.m.

Mr. Richards: Yes. The brewing industry, as I understand it, looked at that. You probably have the information, but I think they said they would go from 12 breweries to four under a free-trade agreement.

Our people in the ministry have seen some of the meat packing industry in Texas, which is highly efficient and highly automated. There is nothing to stop Iowa beef packers from aiming their guns here now. We would be under a great deal of difficulty in competing with those organizations that control 60 per cent of the US market.

You are obviously aware of the other implications. A good portion of our food processing industry is composed of subsidiaries of multinationals, either British, Swiss or US. I do not have a figure in front of me, but I would guess 60 to 65 per cent of the value. You would have people like General Foods and Quaker Oats making a corporate decision as to where they are going to manufacture. It may be in favour of Canada or it may not.

I will give you one example of that. A couple of years ago I had some discussions with Green Giant, who are in the vegetable processing business, about sweet corn. They are anxious to use their Canadian operation as a supplier for the whole northeast US, because our plants in Ontario and Montreal are closer to those markets than their next closest plant which is in Wisconsin. So you might have that type of corporation making a decision that would be very much in favour of Ontario.

On the other hand, Sara Lee may say: "The only reason we kept that plant in Brampton was to satisfy you people in Ontario. From here on we can truck it every day fresh from a massive plant in Chicago." I think you are aware of this.

There are no simple answers. Nobody has come to a net bottom line. There will be winners and losers. What is the bottom line in the province or the country? I do not think anybody knows that and I am not sure they will before the great leap forward or backward is taken.

Mr. Chairman: I imagine a lot of their problems are similar to those of the manufacturing industry.

Mr. Richards: Exactly the same.

Mr. Chairman: It does not vary much because, in the case of food packaging, the input is spread over the continent and it does not matter much.

Mr. Richards: That is right.

One of the things that occurred in the fresh produce industry is that Canada has become one of the fastest growing per capita consumption markets for fresh vegetables and fruit, even faster than the US. Its growth was not particularly due to unique products. Much of the credit goes to cheap transportation. You can now air freight tomatoes from Israel and see them in Loblaw's.

The carnation industry in Ontario and North America has been wiped out by the cheap freight out of Colombia and Peru of fresh-cut flowers. A 747 lands in Miami every day and fresh-cut roses and carnations are subdivided and distributed throughout North America. Innovations in the form of cheap transportation, refrigerated trucks and better rail cars have provided the opportunity for one plant to supply a massive area. Those decisions about world product mandates will be critical to who wins and who loses.

Dr. Switzer: If any of you gentlemen have not visited the Ontario Food Terminal, I would recommend a visit. If you are



prepared to get up a little earlier than normal and go there about seven o'clock in the morning, it is a fascinating experience. It would be completely in order for me to offer whatever services I could provide in arranging such a visit, either as a group or individually. You would find it a fascinating experience if you have not been there.

Mr. Taylor: Those of us from the farm community would not have any difficulty making it on time.

Mr. Chairman: Not being from the farm community, where is it?

Dr. Switzer: It is in the west end off the Queensway. Somebody will have to help me more specifically with that.

Mr. Chairman: Perhaps we could arrange a visit, at least for the urban members of the committee.

Mr. McGuigan: I would like to ask for a minute or two to speak about the marketing boards that are not supply management. It is a matter of interpretation how you see it. Do I have time now?

Mr. Chairman: That would be in order.

Mr. McGuigan: The question Mr. Morin-Strom asked is what would happen to the other marketing boards, the 20 or so that do not have supply management. It is all a question of how you perceive the United States. I would like to point out that the US has a form of marketing boards known as marketing orders. They are very mild as compared to our marketing plans in that they do not have price-setting powers, nor do they have acreage of poundage setting quotas, but they do have some powers. One that I can use as an illustration is the Florida citrus. They declare a shipping holiday a few days before Christmas. Because a great many carloads and truckloads of citrus go out to meet the Christmas trade, there is always a little bit of carryover, and they want to give the stores a chance to clear those out before they come in on about January 1 with fresh supplies. To some extent, they can regulate the market.

They have another one in the case of a product that I grow and that is the Montmorency sour cherry or the pie cherry. Production of that product is focused around the Great Lakes area, mostly in Michigan, Wisconsin, Ontario and New York. There are large production variations from season to season. If you had it on a graph, it would be just a regular zigzag, because it is very dependent upon the weather.

The cherry marketing order has been able to set aside so many tons. Maybe in a big year they will set aside a quarter of the crop in frozen storage. You can almost count on there being a short crop the next year, so then they would even out the price of that product. One of the advantages is that in a high year, horticultural prices tend to go very high, so you price the cherries right out of the market. It is very distressing, but they have been able to have some success with that.

One of the first things Reagan did when he came in was to attack that particular marketing order. He said, "Even though you do not have price-setting powers, you do have power to do things that enhance the price." I think he cost me a lot of money, and he cost Ontario a lot of money. In fact, he cost the stabilization board a lot of money, because it knocked the heck out of our cherry price that year. I have relented a little bit, but it indicates the mind-set that they have over there, which is so much antitrust as far as agriculture is concerned. There have been all sorts of arguments that everything else, the automotive and so on, are cartels. Nevertheless they have an antitrust attitude towards agriculture.

The other thing is what is going on in Washington right now. They have a 1985 farm bill before Congress. It is not passed yet, but the intent of that bill is that by 1990 all agricultural subsidies will be eliminated. For instance, corn was the major product that was talked about here. It has a support price now of \$2.55 per bushel. They would eliminate that by 1990, which in present day terms probably means that corn would be selling for less than \$2 per bushel. Production cost in Canada is about \$3.50, and it is \$3 or so in the United States.

What they are really saying is that a few years ago their agriculture exports were \$40 billion. It just offset their imports of oil. It has dropped to \$23 billion. The high prices were brought about by their agricultural policies and subsidies, which encouraged other people in the world, the Indians, the Chinese, Brazil, whatever, to get into being self-sufficient in agriculture.

In sociological terms it is a wonderful thing that these countries are now self-sufficient in food, because the history of economics is that a country cannot go any place until it grows its own food. It has to have a take-off point to become an industrial country, and then people start using cars, refrigerators and all the other doggone things. What they are really saying in the United States is, "We are going to drive you people back out of the food business to be dependent upon us." That is what they are really saying, and I think it is terribly immoral.

4:30 p.m.

I just find it terribly threatening to Canada, and I think it is terribly threatening to the stability of the world. I guess there are lots of farmers here, myself included, who would be glad to see having that offshore market again, but not if we have to do it at the cost of driving the American and Canadian farmer into bankruptcy. I hate to use the word multinational, but taking the farm industry away from farmers, as we know it, and putting farming into the hands of the General Motors of farming is really what those guys in the Pentagon have in mind. To my mind, it is something we should be very concerned about. Even though these other marketing boards do not have the nonprice-setting boards, they still have a big interest in maintaining their position. They negotiate terms of delivery and financial protection. I should enlarge a bit on that.

There are two classes of boards other than the ones that set quotas. There are those that set the conditions of how you are paid, what the delivery considerations are, those that grade, and that type of thing. There are others which have price-setting abilities but not quota-setting abilities. They take the crop produced that year and put a price on it to move that product and yet will be best to the producer. I do not necessarily say that they are going to get the producer the cost of production. "If you farmers, as a group, decide to grow this much, we, as a board, will sell it." What they do is stop the competition between farmers and look upon it as a unit. But it has been very successful, especially in the horticultural trade. That is the one industry which would probably be wiped out from both the tariffs and the price-setting abilities they have in marketing boards.

I think we have a lot to fear in the whole marketing board set-up because the philosophy in the United States is absolutely against it. I was in Michigan one time listening to a group of apple growers. It was a particularly bad year--just terrible prices. A couple of men got up and started talking about what Canadians were doing. The first thing you know, they had set up a marketing collusion among themselves. They continued talking for a while and finally one man jumped up and said, "Every one of you guys who just spoke could go to jail for five years for even talking about it." It is just not in their concept.

Dr. Switzer: Mr. Chairman, Dr. Collin reminded me of this and I think it might be worth reading into the record. It follows a bit from what Mr. McGuigan was just saying. You folks should be aware that as consumers, the present setup which we have in Canada is not that bad. Canada is in the rather nice position that we, as consumers, pay less of our disposable income than any other country in the world, including the United States, for food.

Mr. McGuigan: In spite of our marketing boards?

Dr. Switzer: In spite of, or because of, or whatever. The last figure I saw, perhaps Mr. Seguin could agree or not, was we pay less than 17 per cent of our income for the food we consume in this country. You compare that with with the United States which is just a little bit higher. Figures such as 30 per cent of disposable income are very common in Europe. Of course, if you want to go all the way to a developing country, 80 or 90 per cent of their income goes just to keep themselves alive.

Mr. Taylor: What troubles me, if I may make an editorial comment about those comparisons, is that the price paid to the farmer of those commodities is insignificant with respect to what the consumer often pays for the product. He could give his beef away and the price in the stores would probably be the same.

Dr. Switzer: If I could follow up on that, Mr. Chairman. Earl Butts in the United States and Mr. Whelan in this country used to use the same set of data. I am not sure who did it first. The data was that if you go into a restaurant and you sit there and are served nothing but an empty plate, you will pay 85 per cent of the cost if the plate had food on it. So, it is well worth thinking about.



Mr. Chairman: That is a very interesting note to close on. I note that we were given a standard of living chart today. Canada is now down to 15th spot. So if we are actually first in the per cent of our income which goes to food, that is worth noting.

Mr. Leluk: Those are 1982 figures.

Mr. Chairman: Those are 1982 figures. We may be even lower than that. I know that in 1979 we were seventh, in 1982 we were 15th, so where are we now?

Mr. McFadden: On Christmas Island.

Mr. Chairman: I want to thank the members of the ministry for sharing their information with us today. It is obvious they have put a lot of work into this. As I indicated at the opening, it is an area some of us were not terribly knowledgeable about. Mr. McGuigan was constantly having to remind us it is a major factor in our considerations. Now it is a lively major factor in our considerations.

Members of the committee, especially in view of what Mr. McGuigan has just said, I do not think it would be unusual for you to be made aware that our deliberations are being monitored by the consulate general of the United States. That is obviously part of its duty in this country. I have had some contact with Mr. Lucius, the economic officer at the consulate, and he has provided me with some material that is being handed out now. I am differentiating it from the material you normally get, which is provided by Mr. Traficante. In providing me with this article, he suggests we glance first at the questions and answers at the end of the paper as an executive summary in case we are not inclined to read everything we are given.

I should inform you as well that there is apparently in existence a mission between this country and the United States in which we investigate trade activities in the other country. It is a two-week trip that country pays for and I warn you in that regard. Three people can go on the trip that now is in existence. Two have already been chosen and the third person apparently backed out. It occurs during the last two weeks of August. We will be sitting during those two weeks and we have submissions we will be hearing during that time, but if anyone has any interest in going, perhaps as a representative of this committee, he would spend a week in Washington and another week travelling about the United States. Of course, the committee as a whole plans to be in Washington in September. I simply bring it to everyone's attention.

Mr. Taylor: Have you considered taking that duty on yourself?

Mr. Chairman: I did briefly at your urging, but I have opted against it.

Mr. Taylor: I would have thought you would be the most likely candidate for such a journey if you could see yourself

doing it.

Mr. Chairman: You are not just trying to get rid of me.

Mr. Taylor: No, I am not. We have an excellent chairman, and I am glad we are on the record, but I thought that should be the committee's first choice if it is being left to the committee.

Mr. Mackenzie: When is the next meeting?

Mr. Chairman: The next meeting is August 19, which is when this trip starts. Thank you for the comment, but I hesitate to be away from the committee for two weeks. I might come back an avowed free trader.

In any event, we are adjourning for two weeks. This is our summer holiday. Have a good holiday, everyone. If the planning committee could stay, we will have a brief meeting to discuss some of our plans for the fall.

Mr. Ferraro: I have not read all the stuff yet, but do we have a summary of the General Agreement on Tariffs and Trade?

Mr. Chairman: I have not seen one.

Mr. Trafficante: I could get one.

Mr. Chairman: That is a good idea.

Mr. Ferraro: We refer to it 1,000 times every hour. I think it would be advisable to have it.

Mr. McGuigan: I have something on a humorous note. If you will allow me to distribute this, it is a story about an economist.

Mr. Chairman: Harry Truman always said he was looking for a one-handed economist because every economist he ever talked to always said, "On the one hand, we have this and, on the other hand, we have that."

The committee adjourned at 4:40 p.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, AUGUST 19, 1985

Morning sitting





SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)  
VICE-CHAIRMAN: McGuigan, J. F. (Kent-Elgin L)  
Bennett, C. F. (Ottawa South PC)  
Cordiano, J. (Downsview L)  
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Knight, D. S. (Halton-Burlington L)  
Mackenzie, R. W. (Hamilton East NDP)  
McFadden, D. J. (Eglinton PC)  
Morin-Strom, K. (Sault Ste. Marie NDP)  
Stephenson, B. M. (York Mills PC)  
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Cureatz, S. L. (Durham East PC) for Mr. Bennett

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

From the Automotive Parts Manufacturers' Association of Canada:

Bursey, M., Executive Director

Lavelle, P. J., President

Heisey, A., Private Citizen

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, August 19, 1985

The committee met at 10:08 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: We have a quorum. Welcome back, everyone, from that lengthy holiday you had. You have received a schedule of hearings, which you may note has a number of gaps in it. The gaps are there in part because of possibilities of submissions which have not yet been firmed up.

You will note we have scheduled a visit to Ottawa for next week. Some members of the committee would have preferred that to have occurred after Labour Day, but it seems the federal government indicated it would be able to help us more next week than in September.

We have firmed up two very full days in Ottawa, but it may be that some of that activity can be moved up to Wednesday afternoon. If that is the case, the Ontario Forest Industry Association will change to another time, which will permit us to get away a little earlier on Friday, August 30.

The trip to Washington, DC, is definitely on for the week of September 9 and will commence with breakfast with our own ambassador. That will be a very thorough week as well.

The planning subcommittee met following the last hearing two weeks ago, and a strong submission was made by the member for Prince Edward-Lennox (Mr. Taylor) to the effect that we should be considering, even before we make our interim report, a visit to Europe to see the actual ongoing activities of the headquarters of the General Agreement on Tariffs and Trade and the headquarters of the European Community.

As a result, that subcommittee instructed the clerk to investigate at least the cost of such a trip. The cost of a trip for all committee members plus two staff members, Toronto, London, Belgium, Geneva, Toronto, for 11 days would be \$44,660.80. If it were decided that only four committee members--that is, the chairman and one from each party--plus two staff members were to go for the same number of days, it would be approximately half that, or \$22,282.80.

On consideration it is my own view that, as valuable as this may be and as necessary as it may seem to be in the long run before we do our final report, it is not something we must do before we do our interim report. We do have fairly stringent time restraints before we do our interim report.

Mr. Taylor: Mr. Chairman, since I had an honourable mention in terms of my strong urgings, I would like to comment

that I have done this and I thought it would be a valuable experience for the committee members. While it would be a valuable experience, if you think that was a strong urging, wait until I get enthusiastic about something.

I do not disagree that we have a very tight time frame, and if we have to take that much time out, then it is not something we can realistically fit in before the House recommences in October. By then we may have a better perspective on what we are doing and where we are going, or if we are going and why--I am now talking about the terms of reference, not travel--then maybe the whole committee can discuss that at some later date. So I do not think you have any dissension among your troops on the committee.

Mr. Chairman: Very good. In fact, the cost figures that were provided are not as hefty as I had anticipated for a group this large, but it is something we have to consider very carefully before we make any final decision.

Mr. Taylor: Especially with the extra pressure on the budget because of the undertakings that are under way in other ministries.

Mr. Mackenzie: If this subject has the priority that the Premier (Mr. Peterson) seemed to give it during the campaign, it may well be useful. I do not think most of us anticipated it could be done, given the Ottawa-Washington trips and the number of people who want to see us before we have to prepare an interim report in any event, but it should be kept in mind.

The other thing I would say to the chairman is that if the decision is made for the committee to cover this, then it should be the entire committee and that whatever arrangements are made should be made on that basis.

Mr. Chairman: Fine. Unless there is any other discussion on that, I will consider that information tabled. It is something that may come up again at a future time.

The only other area for the committee to be made aware of with regard to planning is travel within Ontario. We have not had an overwhelming amount of interest in submissions from outside this city. To my knowledge, so far, we are having one private submission in Ottawa; there is one industry submission and one academic submission interested in being made in Kitchener; and there is one from Copper Cliff, which I suppose could be best accommodated in Sudbury, if we went to Sudbury. There may be some interest in Sault Ste. Marie. We will not be as busy as the standing committee on social development in that regard.

Mr. Taylor: And will not be spending as much money.

Mr. Chairman: That is right.

Mr. McFadden: Is it our intention to attend as a full committee where only one person in any one community indicates an interest? How are we going to accommodate that? I am wondering about the idea of the full committee going for a session lasting one hour or one and a half hours. What is the feeling on that?



Mr. Chairman: Is there any comment on that?

Mr. Taylor: My view would be that we should not send the committee to Sudbury, for example, to hear one submission. It would be much cheaper to bring the person to Toronto if we really wanted to hear him. If it were that urgent or if it were a written submission, we could consider that, but I cannot see the full committee with staff travelling to Sudbury for a hearing of half hour, an hour or whatever it is.

Mr. Chairman: I think the same thing. However, I have been told it is not unusual for committees of this Legislature to go into communities without anything on the docket, but simply to make its presence felt. I am not sure that is very good economy.

Mr. Cordiano: We should have more witnesses appearing before the committee if we are going to be in a particular city for an entire day. That would be a logical way to approach it, and we could save some money in doing that as well.

Mr. Chairman: I take that to be the general view of the full committee. Perhaps we can instruct the clerk to contact the party in Copper Cliff to see whether arrangements can be made for him to go somewhere else. It may be of some value to make certain that the committee--again, I have said this before--gets to northern Ontario. Do you have anything to report, Mr. Morin-Strom, on the excitement over the existence of this committee in Sault Ste. Marie?

Mr. Morin-Strom: I do not have anything specific to report right now. There should be presentations coming forward, but I do not know specifically how many. It is not a tremendous area of interest in the province overall, nor has it generated the publicity that the federal task force has. As a result, the general public and much of business and labour interests are not aware of what is going on outside the Toronto area in particular.

Mr. Chairman: We will keep the committee in touch then. We have not yet made definite plans to be in any city in Ontario other than Ottawa.

Mr. Taylor: If we are to assist the Premier's posture with respect to position on this issue, then the committee may want to play pot luck--I am doing pretty good at my alliteration, am I not?

Mr. Chairman: Yes, you are.

Mr. Taylor: --and attend four or five cities, after the proper newspaper advertisements, and see what happens. At least we will have exposed the committee to those areas and people cannot complain that they did not have the opportunity. That is something the committee may want to discuss later.

Mr. Chairman: The advertisements that have gone in local newspapers have not suggested that the committee was coming to town, and that fact may have deterred some people. It may be a little different if we suggest the committee is coming. Anyway, we

will keep in touch on that, we do not want to keep our guests waiting any longer while we do housekeeping.

10:20 a.m.

This morning we have with us representatives of the Automotive Parts Manufacturers' Association of Canada. I see the president, Patrick Lavelle, and as we see them from our vantage point, Morley Bursey, the executive director, is to his left. They have a presentation to make. They have invited us to interrupt if we wish during the course of the presentation. Copies have already been distributed.

AUTOMOTIVE PARTS MANUFACTURERS' ASSOCIATION OF CANADA

Mr. Lavelle: We are delighted to be here this morning. As you pointed out, Mr. Chairman, I am accompanied by Morley Bursey, who is the executive director of the association. I reiterate that we are prepared to answer any questions during the course of our testimony.

For those members of the committee who are not familiar with the Automotive Parts Manufacturers' Association of Canada, we are an organization that represents about 350 companies across Canada employing 55,000 workers, with production in 1985 valued at about \$8 billion. About 75 per cent of what we produce in Canada is exported to the United States, mainly under the Agreement Concerning Automotive Products Between the Government of Canada and the Government of the United States of America.

I was pleased to be here for the discussion this morning to get some appreciation of the fact that discussion of free trade is not an issue that is gripping everybody in Canada at the moment. However, it is our view that the issue is probably the most important economic issue facing the country at present. We are motivated to appear before your committee because we feel people in Canada generally do not fully comprehend or understand the economic and social need to retain a strong manufacturing sector in the country.

As an industry association and group, we take some credit for the fact that a committee of the Legislature is studying this issue. We had made such a recommendation to Premier Davis and Premier Miller. Subsequent to that, when we met with Premier Peterson we suggested that he also focus on this issue in view of the fact that Ottawa was in the process of making a very important economic decision in which the voice and views of Ontario were particularly muted.

As an industry association, we appeared before the joint House of Commons-Senate committee in Ottawa on August 8. We made two simple recommendations to that committee. One was that any attempt to move quickly to a trade enhancement treaty with the United States should be delayed pending a full analysis of the effect that would have on Canadian industry and on Canadians. More particularly, from the industry's point of view, we urged that the automotive sector be excluded from any talks with the United States on a trade enhancement treaty.

I gather the committee has been set up to establish fully the position of the Ontario government and the political parties represented here on this question in a most clearcut and comprehensive way. I make it very clear that as an industry association we have absolutely no question about the views of all the political parties in the Ontario Legislature with respect to the support they have rendered to the automotive industry in this province over a period of years.

I have noted that in the past few months a second resolution has been passed by the Legislature, supported by all political parties and introduced by Premier Peterson, that calls on the various parties to maintain a high level of Canadian content in cars sold and produced in this country.

I would like to refer specifically to the automotive trade agreement and to make some remarks relative to the fact that most people, when talking about trade enhancement or expanded trade with the United States, refer to the automotive trade agreement as the perfect example of how such an arrangement would work.

I want to point out that the auto pact is not a free-trade arrangement. It is managed trade in which the Canadian automotive sector is protected by production-to-sales ratios and Canadian content provisions which could not be duplicated, in our opinion, in today's hostile congressional environment in the United States. People forget, as well, that the auto pact was developed after several years of controversy between the two countries, which at times verged on a declaration of a trade war. There was an awful long period of digestion that went on before the agreement was finally signed in 1965.

The auto pact also required the US automotive companies to invest \$240 million in Canadian automotive facilities between 1965 and 1970 in exchange for the tariff reductions provided for in the agreement. While we would expect that this principle would be contained in any further agreement with the US, to take into consideration the disparity in size and ownership of Canadian industry, it is doubtful whether such a provision would be agreed to by the United States.

Despite the fact that the US and its automotive industry was highly favoured by the agreement, because 85 per cent of automotive activity in our country is still controlled by the US auto firms, it has been under constant attack by US congressmen and various US administrations since it was signed in 1965.

I would also point out that when the agreement was signed in 1965, the Canadian parts industry was left unprotected by the agreement and subjected to duty-free imports from the day after it was signed until the present time, while the US did seek a waiver from the General Agreement on Tariffs and Trade, which allowed it to protect at least partially its automotive industry.

Only in recent years, when the focus of US automotive concern has been directed at Japan, did the agreement seem to be safe from US government intervention on behalf of its own special interests. We are informed by fairly reliable sources that when



Prime Minister Mulroney met with President Reagan in Quebec City on March 17 the US government encouraged Canada to forgo the quotas as of March 31, as they were doing in the US. Had we done so, it would have been a disastrous situation for our Canadian industry.

Mr. Morin-Strom: May I ask one question?

Mr. Lavelle: Certainly.

Mr. Morin-Strom: In the previous paragraph--I think I got the meaning but I wanted to check it--you said: "The US protected its parts industry by seeking a GATT waiver for bilateral intent only, while Canada did not. The adjustment process..." and the following sentence, "The independent parts industry survived because of the safeguards but would not have without them." Whose independent parts industry are you referring to there and what are the safeguards? Are you referring to what the United States put in for itself?

Mr. Lavelle: No. I am talking about the Canadian. There are two safeguards: the production-to-sales ratio in the agreement and the Canadian value-added provision, which is 60 per cent Canadian content in cars produced in Canada with equivalence being allowed for shipment of parts to the US. Those safeguards were not particularly directed at maintaining a Canadian parts level in those cars because the provision allowed for the importation of parts as well as for labour and the production of cars in Canada. There was no particular requirement on the domestic vehicles to use Canadian parts, but in order to meet their commitments they had to use some Canadian parts.

The American provision was that they sought a GATT waiver in order to retain duty protection for their US domestic industry, whereas Canada, by not seeking a GATT waiver, simply provided the same provisions of the agreement to every other country in the world. As a result, Ford, General Motors and Chrysler were able to import parts into Canada from any country in the world duty free. They were not allowed the same provision in the United States.

In the brief 20-year history of the agreement, it has been challenged by a Senate committee in the early 1970s, which called the presidents of the US vehicle companies before it and suggested they reverse what was then a rather small Canadian trade surplus. In 1972, to go back in history briefly, there was a surplus on the Canadian side of about \$200 million. The presidents of the companies were called before a committee and it was suggested by the committee that this was not the way the agreement was supposed to be established and operated. Shortly thereafter, we went into a number of years--almost 10 years--of concerted deficits in our trade with the US. This was a subject of a certain degree of intervention.

10:30 a.m.

In the Trade Reform Act of 1974, senators from a number of midwestern states attached a special section to the bill calling for the end of the Canadian safeguards and the elimination of any

perceived Canada advantages. The same occurred in the Trade Act of 1978 when all agreements with Canada were encouraged to be reciprocal. Indeed, the safeguard provisions in the agreement were the focus of that action by the committee.

It is difficult for us in the automotive industry, taking into consideration the tremendous advances that have occurred and the tremendous growth in the transport of flows of trade and dividends, to agree in any way with the idea that Canada disadvantaged the United States in the signing of the Canada-US automotive agreement.

In more recent history, on two separate occasions since 1980, the US House of Representatives has passed by a comfortable margin a bill that would force the US vehicle companies to meet a level of 90 per cent US content. That legislation is still floating around in the US House of Representatives and is likely to be introduced again. The impact of the bill on Canada, if passed by the Senate, would be that the auto pact would be abrogated and Canadian exports of automotive parts to the United States would be decimated.

In 1984 Canada's surplus in auto trade with the US was \$5 billion or about 25 per cent of the surplus we have with the US. We expect that surplus will reach the same level in the current year. Auto trade between the two countries represents about 35 per cent of total trade between Canada and the United States.

It is our view, therefore, that the impact of an enhanced trade treaty with the US could not possibly ignore such a major portion of our total trade, even though there have been suggestions in Canada that this be done. If this is the disposition of the United States, it has not been expressed. I am doubtful if they would agree to set the auto pact aside in any discussions we have with them.

While we talk about the main issues of our trade, we cannot ignore the fact that at present Canada has an embargo on used cars coming from the US under the trade agreement. We also have to take into consideration the fact that Canadian-made buses, even though they do come under the auto pact, are not allowed to be shipped from Canada to the US unless they are assembled in that country.

Rapidly rising Japanese imports in the United States as a result of ending quotas last March are likely to cause a fall-off in US vehicle production by the end of this year. In fact, we are already seeing the import of Japanese cars to the US causing a downturn in that domestic industry. This is not the environment to raise the issue of ending the Canadian safeguards in the auto pact and we can no longer count on the United Auto Workers in the US to support continuing employment for their former colleagues in Canada.

I am not saying that, because of the split in the union, there would be any effort on the part of the UAW in the US to cause difficulty for Canadians, but it is quite natural in the course of events, if the industry in the US begins to suffer or there is a downturn, that there will be pressure for an

appropriate allocation of jobs in that country, just as there would be in Canada.

To date, the federal government has not dealt with these issues. As I have said, there has been some indication that the auto pact would be exempt from the discussions, but this seems to us an impossible dream, taking into account the history of the agreement and the current attitude of US politicians, workers and enterprisers. We have urged the government to leave the auto pact out of any trade discussions with the US. To do otherwise poses a very serious threat to the stability of our largest trading relationship, not only with the United States but also with any other country with which we deal.

Those who advocate free trade for the manufacturing sector do so because they believe that the threat of competition and the need to compete with low-wage countries are the incentives that Canadian business and workers need in order to survive. They pursue the theory that we lack technology and shelter overpaid workers who are hiding behind tariff and nontariff barriers. They refuse to take into account that almost everyone else is doing the same, particularly the Americans and the Japanese with whom we must compete head to head and the only way we are going to lower the barriers is through the multilateral framework of the GATT.

Without the recovery in the manufacturing sector, particularly the automotive sector, there would be no Canadian recovery and many more thousands would be unemployed. That is especially the case in Ontario, which has the bulk of the manufacturing jobs. I believe the drop in income and the elimination of export-oriented jobs in the manufacturing sector would have a disastrous effect on the Canadian economy.

Mr. Chairman, you were talking about your various trips to Ottawa and elsewhere. I would suggest it might be useful for the committee to spend some time in the Ohio Valley of the United States, where some of the major so-called smokestack industries have had to meet the test of the import challenge and been decimated by the fact unfair competition, and in some cases warranted competition, has had a dramatic social impact on the local communities.

In recent years, much has been made of Ontario's trade performance. We cannot ignore the fact that a great deal of that in reality takes place under the Canada-US agreement. Much activity is in transport or flows between multinational companies. In other sectors of the province, the performance has been less successful and tends to hide the reality of our deteriorating situation.

The situation between Japan and Canada is the perfect example. While we have a surplus in the United States with respect to our auto trade this year, our deficit with Japan will surpass \$2 billion in 1985, and with other countries it will hit \$1 billion. While our exports are dropping, Japanese imports are growing rapidly. As another instance, imports from South Korea will hit an unbelievable figure this year, mainly because of car imports, which will be almost as large as the total number coming



from Japan. This is an area in which we should be looking at some immediate means of curbing such duty-free competition with our domestic industry.

I have made some comments on pages 15, 16 and 17 with respect to the preparedness of the federal government to look at these issues. We believe preparation in terms of sectoral studies and the impact on jobs and industries has not been carried out by the Ottawa government. We in the automotive sector have had no substantive discussions with federal bureaucrats or ministers, although we have participated in various discussions in Ottawa, on the impact of a trade enhancement treaty or the elimination of safeguards.

Mr. Taylor: Does that indicate you are ad idem on that and there is no need to discuss it because you are of one mind? Or do you suspect they are thinking in their own way, oblivious to your interests?

Mr. Lavelle: No, I do not think that is the case. I do not think our industry is any more or less disadvantaged by what is going on in Ottawa than anybody else. I just believe, in the course of studying this issue, the government has not done its homework. If we go back to the previous federal government that initiated sectoral talks with the United States, there was no real consultation with industry before it was done. Certainly since the present government has been there, the level of consultation has been in meetings and consultations at breakfasts and other things. In terms of the substantive issues, that work has not been done.

We know now the federal government, through the Department of External Affairs, has hired a consultant to examine the impact of this kind of arrangement on the automotive industry. This has been done only recently.

Mr. Taylor: Your criticism of the federal government, then, is not that it has ignored you and meaningful discussions on substantive issues, but that it has not really done the necessary studies itself in order to involve you. Would that be correct?

Mr. Lavelle: I would say that is the case.

10:40 a.m.

Mr. Chairman: To follow up on that, do you have a view of the feasibility of sectoral discussions with the United States?

Mr. Lavelle: The problem is, if you look at the automotive sector and the safeguards we have, which we feel are absolutely vital to the continuation of the industry in Canada, it does not appear to be possible in the present environment to negotiate the same kind of safeguards in the sectors that would be up for sectoral negotiations.

If you look at the steel industry, the lumber industry or the automotive industry, these sectors are basically highly competitive in the US, and therefore it would be hard to argue under any negotiations that we would require safeguards in order

to look after the Canadian interests. So my impression is that the Americans are not interested in talking about safeguards for Canadian industry, and I would suspect that was the reason the sectoral initiative did not proceed.

To expand a bit, I would like to go back to what Mr. Taylor said. There are some very important differences between the US administration and the way we do business in Canada at the federal level on trade issues. The Americans have a very highly structured organization in which the private sector is deeply involved in the process of discussions. There is no such arrangement in Canada. This is an arrangement that is really carried on by federal bureaucrats in consensus with various industry groups who are called before them. We are much more vocal, I would say, than many other industries in this country, and there is no real sense that the issues are discussed in a substantive way.

Mr. Kelleher has now announced that he will establish in Canada an industry sector advisory committee similar to the committee arrangement in the United States, where the industry sectors are consulted on trade arrangements and changes in tariffs. But this will not be done or in place until well after the federal government has decided what its policy is going to be.

I am not criticizing the present government any more than the previous government. My concern basically is with a structure in which bureaucrats establish the trade policy in this country to the exclusion, in most cases, of industry and the private sector.

Mr. Taylor: Would you endorse the mechanism that Mr. Kelleher has announced, or do you think there is some better way of involving industry in the decision-making process?

Mr. Lavelle: No. At the first meeting we had with Mr. Kelleher, we recommended that he take a look at the ISAC committees because we ran into the situation during the Tokyo round of the GATT talks in which we were able to find out from our parent-company organizations in the United States more of what was being done in the GATT on behalf of Canada from Americans than we were able to find out from our own negotiators in Ottawa or in Geneva. That is not a new situation; we have had that consistently.

Mr. Warren, who was the co-ordinator of talks in Canada, would invite us up to Ottawa, swear us to secrecy and then tell us nothing. We would then go back and talk to somebody at Rockwell or somebody else in the US, and he would say, "Your government is doing this or proposing this." Our concern has always been that this is a closed shop, and we want to open the process because the impact on us is great, obviously, as it is on other sectors too.

Mr. Taylor: I hear your criticism as one of the federal government being a little late in setting up a mechanism. I was wondering if you agree with the mechanism, and you say you have. As a matter of fact, you indicated that you had suggested this type of mechanism.

Mr. Lavelle: Yes.

Mr. Taylor: Do you think we have reached a point where there will not be sufficient input from industries such as yours before the decisions are made? This is a fear I sense you may have.

Mr. Lavelle: As I understand the timetable, the federal government will make up its mind some time in September or October concerning whether it will--first of all, the Senate and House of Commons committee will make its own recommendation and then the government will deal with the various proposals. My understanding is that the basic decision by the federal government will be made in the fall. While Mr. Kelleher has announced the formation of these committees, they are not yet sitting. They have not been developed, so there is no advice flowing through them to the government.

The other aspect is that there was some indication of sectoral studies being done by the government in Ottawa. If those studies exist, they have not been made public. We do not know what they are, so we are concerned about that. But also I suggest that in the auto sector, which represents 35 per cent of the total trade between our two countries, the first call we had from anybody in Ottawa who was doing an in-depth study--I think it is in depth--was a week and a half ago. It was the same week that we appeared before the committee in Ottawa, so it was about August 4 or 5. I do not think the federal government is, or should be, in a position yet to have come to a conclusion as to whether we should proceed or not, because I do not think they know the impact.

Mr. Taylor: You are instilling some concern in my heart because presumably this committee, which you are currently addressing, hopes to make some contribution to the government of Ontario so it can better adopt a posture itself. If the time frame is such as you indicate, then these very meetings in which we are engaged may be an exercise in futility. I happen to believe that government may move at a slower pace than you do, or as you have indicated, and we may have adequate time to make some impression upon the federal authorities with regard to the importance of Ontario in any federal posture, Ontario being, as you have already indicated, the heartland of Canada and responsible for the lion's share of manufactured exports.

Mr. Lavelle: I would only comment that it is my view that the federal government is supposed to take a decision, of course, but I suspect, from reading in the media and elsewhere, there will be a delay in making that decision if, indeed, the decision is ever made. I do not make that remark in a partisan sense.

Mr. Chairman: Mr. Lavelle, you say it is within the last week and a half that you found out there are sectoral studies being done in Ottawa. What attempt have you made, if any, to get hold of those studies or find out about them?

Mr. Lavelle: I should not have said that we had heard about them for--we had a rather curious discussion one day during the summer with Mr. Kelleher, during which he made reference to the fact that there were sectoral studies. He was then corrected



by his officials to the extent that they were really not sectoral studies. This was in the early part of June. Since then there has been enough calls from various sectors requesting that information that the work is now ongoing. I do not know of anybody who has seen them, and I am not sure they really exist, but there is discussion that the sectors are being looked at on a sector-by-sector basis. I am sure other groups will tell you that.

The difficulty with the debates so far has been that in the early stages, all the macro-organizations--the Canadian Manufacturers' Association, the Business Council on National Issues, the chambers of commerce--have come out strongly in favour of free trade or a trade enhancement treaty with the United States. What has occurred since then is that groups such as ours, the furniture people and the micro groups that represent industry associations, have been against it. That is where the conflict is developing with regard to the kind of advice the government is getting and the information it is producing.

It is a catch-up situation. The man who is employed by the federal government to look into the auto pact is a former bureaucrat, who was in charge of the auto group of Industry, Trade and Commerce about 10 years ago. His study is supposed to be submitted to the government some time in early September. That suggests to me there is a bit of a lag with respect to acquiring the necessary information.

10:50 a.m.

Being in the auto industry, for instance, I do not think the United Auto Workers, ourselves or the vehicle companies are in favour, for obvious reasons, of any expansion of the arrangement that would impact negatively on the auto industry and would put the safeguards into some concern. In view of the fact that it represents such a large share of the trade, 35 per cent, one would have thought in-depth discussions would have taken place, but that has not been the case.

Mr. Mackenzie: Is the fact that the Japanese companies are increasing their production facilities in the United States at a rapid pace--something like \$5 billion has been invested in the last few years in the US--not likely to increase our problems in terms of the export of parts?

Mr. Lavelle: Our problem obviously now is to deal with the Japanese situation. One of our problems has been that we had no access to the US for parts made by Canadians and shipped to the Japanese companies that have established there. That is why we were pressing in the task force report of 1983 to bring the Japanese companies under the Canada-US automotive agreement.

That was not done by the federal government, but we think that what has occurred with Toyota, in the sense that it will establish a plant in Canada and one in the United States and eventually will come under the auto pact, will give us the opportunity to enter into the US market as parts manufacturers and suppliers to Toyota in the US. We hope the same is going to occur with Honda.

The problem is that the more the imports increase in the United States the less North American domestic production there is going to be for General Motors and Chrysler. We will obviously be impacted by that.

Mr. Mackenzie: That is the point I am making. I have some figures that show that in 1984 we shipped \$10.2 billion worth of parts to the US market, but only \$17 million of that went to Japanese-controlled US plants. They are now rapidly accelerating their control. The US has virtually given up on its own domestic production in working out deals with the Japanese. That is why I wonder if we are not in some grave danger and much quicker than we think in terms of the situation.

Mr. Lavelle: I do not want to get into a recitation of the 1983 task force report that the industry did for the federal government, but certainly the thrust of that was the concern we saw about the changing situation in the US market and the need for Canadian manufacturers to have the opportunity to become suppliers to the Japanese. Our view was that we would not be able to do that unless the Japanese were in Canada.

The fact that Toyota, Honda and other companies would have been brought under the Canada-US automotive agreement would force that because, if they wanted to function under the agreement, they would have to meet the safeguard provisions in the agreement to produce one car for every car they sell and meet the 60 per cent factor.

Where we are running into difficulty is that if you look at the experience with the Hyundai Pony, which is now selling at a rate in excess of 100,000 vehicles a year in Canada, you will find that they are coming into this country duty-free by virtue of an arrangement that is complicated, but has to do with the developing countries.

It seems to me that unless we can deal with the Japanese, the Pony situation and all countries on an equal basis, then we are going to continue to have these problems. That was essentially the recommendation in the task-force report.

I will go on for one brief moment. I think this is where the Ontario Legislature and the government were very helpful to us in insisting that Canada retain the quotas on imported cars from Japan, even though the Americans did not do that. Now we see the possibility that the Americans may have to reimpose those quotas again. So the situation is very difficult.

Mr. Morin-Strom: Even more important than the quotas, in the long run should there not be an auto pact with Japanese, South Korea and other major importers to ensure that we have Canadian content not only across the American border, but across the border to Japan, South Korea and so on?

Mr. Lavelle: Absolutely. I think the desire to take into consideration what is happening in the North American market with the Japanese, the Koreans, the cars that will come in from

Yugoslavia and other countries is one we have to address or the industry will have continuing problems. The argument I am trying to make is that eliminating the safeguards or that kind of provision in the auto pact is an idea that would be a subject of some discussion and contention if we ended up in a major trade enhancement deal with the United States.

It also points out that entering into a free-trade arrangement with the United States as we did under the auto pact virtually excluded from our vision the Japanese, the Koreans and the other countries that are developing their own automotive industries. Had we had a wider agreement, perhaps we would not be caught in this difficult situation at the moment. The bilateral deal we did with the Americans tied us so closely to the US industry that we now have to scramble to keep ahead of developments globally.

Mr. Morin-Strom: As to the proposed plants that would come to Canada and the US from Japanese manufacturers, do you have any feeling what content we may expect? Do you anticipate we would get a reasonable share of the parts for those plants?

Mr. Lavelle: I am a little more optimistic than some others in the industry. As far as I am concerned, the most important decision that has been made relative to Japan is the announcement by Toyota that it will put facilities in both countries. That basically commits them to meeting the commitment of the auto pact, which is a 60 per cent level of Canadian content.

One can argue whether that is high enough, but if they are going to operate on a duty-free basis between Canada and the United States, on the basic structure they would have to meet the same commitments as General Motors, Ford and Chrysler. In so far as Toyota is concerned, I think that is very positive news. Honda has not yet committed itself to do that, and we do not have any other investments yet.

Mr. Morin-Strom: On the 60 per cent, does that refer only to the amount of production going on in North America or does it refer to 60 per cent of all Toyota sales in North America?

Mr. Lavelle: It is only on a North American basis.

Mr. Morin-Strom: We still have a serious problem about the amount that would come directly from plants in Japan.

Mr. Lavelle: Under the circumstances, I do not think production in North America will replace their total import volume, but one has to look at what may develop with those companies in North America over a longer period of time. The investments may be small at the beginning, but they will increase. As the difficulty grows of competing directly from Japan to the United States or Canada, there will be economic advantages in putting more of that production in North America.

We happen to believe, rightly or wrongly, that once Toyota is in the auto pact, if it is, the economic advantages of producing in Canada based on wage rates, energy, raw material and



differentials that are in favour of Canada mean we would have a very good position in the United States.

It would have to be guided very much by an agreement that was well understood by all the parties.

Mr. Morin-Strom: What about our position relative to their own production facilities in Japan? How do you think their plants here will be able to compete?

Mr. Lavelle: The development of the Saturn project and what has occurred in the United States with the domestic production of Japanese companies indicate they have eliminated, with about a margin of \$400, almost all of the differential that exists between producing in Japan and producing in the United States, although there are no definitive figures for it. It still costs them more, but it is less than was the case between General Motors and the Japanese.

I do not know whether it will be totally eliminated. If one reads the agreement, what was done in the Saturn project indicates the American companies are moving in that direction, but there is no universal agreement that the Saturn proposal will be spread throughout the entire industry.

11 a.m.

As parts manufacturers, we do not like to say we have given up, but we certainly do not see a great deal of growth in our exports of parts from here to Japan. As a matter of fact, our exports are down to about \$7 million from \$11 million five or six years ago.

It is a matter of competition and a matter of the structure of the Japanese industry, in which the parts plants are very highly integrated into the vehicle companies. We do not see great opportunities for shipping parts from Canada to other countries. We are encouraging joint ventures and some have taken place between Japanese and Canadian companies.

Mr. Mackenzie: You say the \$10-million worth of parts we sold to Japan is now down to what?

Mr. Lavelle: To \$6 million, and I saw some figures that had it as low as \$4 million. That has always been a concern in looking at the issue of quotas. As I said, our deficit with Japan in the automotive sector this year will be \$2 billion and it will be \$1 billion with Korea and some of the other countries, offsetting our \$5 billion surplus with the United States.

Mr. Mackenzie: Our sales do not even amount to peanuts.

Mr. Lavelle: No, but I do not want anybody to think we have not spent a lot of time and a lot of the money of the federal government and the provincial government--

Miss Stephenson: And effort.

Mr. Lavelle: --and effort in going to Japan and looking at joint ventures and trying to market parts. It has not been a successful effort, as the figures indicate. As a matter of fact, we are leaving at the end of November with 21 companies to go back to Japan. This is the fifth trip in the last four years in which we are actively seeking joint ventures.

Once the Japanese investment comes to Canada or the United States, the tendency is for them to bring in their own parts suppliers. We are trying desperately to supplant that in this case in Canada, but we will not do it if we do not have requirements on the Japanese to maintain a fairly high level of Canadian value-added in their cars.

Mr. Cordiano: Mr. Lavelle, looking at the European Economic Community, it is fair to say it has some very stringent rules and guidelines on content as far as European cars are concerned which, to a large extent, prevent the Japanese from penetrating the EEC markets.

Mr. Lavelle: Right.

Mr. Cordiano: Perhaps you can comment on that and on how the whole question of quotas and content legislation would impinge on the Canadian industry.

Mr. Lavelle: What you say is absolutely correct. Most countries in Europe maintain very stringent control. I am not sure I have the actual figures, but in France the import level is three per cent; in Italy it is 1,000 cars a year; in West Germany, even though the government claims there is no agreement, the Japanese import level does not go above 10 per cent; and in Great Britain the import level on Japanese cars is 10 to 11 per cent, negotiated between the industry and the Japanese companies.

We have always been amazed, when we look at Europe and when people talk about eliminating trade barriers and about the common market, that we are such vestal virgins, in the sense that we take a very lax attitude towards the situation in Canada. When we talk about imposing an 18 per cent quota on imports from Japan, we are very apologetic, while Britain has negotiated a limitation it can live with.

In the case of Korean cars, for instance, I doubt whether there is a country in the world that will allow those cars into its market duty-free. We had some meetings with the people in Britain, and I believe they are limited to 2,400 cars in the British market and to about 3,000 cars in the German market.

The whole impact of these decisions makes it very difficult for Canada to operate alone in a so-called free-trade environment. The impact of all those things has been great.

Mr. Cordiano: That seems to lend a great deal of support to the notion that these things should be negotiated within the GATT framework to a greater extent than most people believe and that we would therefore look to the GATT for the kinds of settlements that could come from quotas, etc., or nontariff barriers.

Mr. Lavelle: We in Canada continually look towards GATT. I do not want to sound this morning as though I am terribly reactionary, protectionist and all the other negative things that will apply to my testimony, but with respect to looking at GATT from a European point of view, all those arrangements are in violation, with some agreed wording that is permissible. We are the ones who consistently worry whether we are meeting our GATT obligations, while others are making every effort go around them.

That was the case in the auto pact, when we sought a GATT waiver and the Americans did not. This is the history of how we have responded to the trade conditions we have had to face.

Presumably, GATT is a great organization if everybody lives by the rules, but nobody does. In the automotive industry there is not one country that has what anybody would call a free-trade environment. Everything is organized. We talk about the auto pact as having had safeguards; they are very liberal in comparison to almost any other country you could consider. For instance, the Koreans do not allow a Japanese car in their market, and the Japanese do not allow a Korean one in theirs. These are the kinds of arrangements that exist. They may not be in the best interests of free trade and expanding world trade, but they are realities that have to do with protecting jobs.

Mr. McFadden: On pages 23 and 24 of your submission, you allude to the fact the auto parts industry has made a great leap forward, and you point out the increases in sales and so on that have taken place from 1981 to 1985, as I understand it.

In the last paragraph you talk about the combination of factors that had an impact on this. You mention everything from "withdrawing of multinational subsidiaries" and "a strong domestic entrepreneurial spirit" through to "favourable monetary and trade policies." I wonder if you could give us some idea as to the relative importance of those factors in securing this favourable result in past years.

Mr. Lavelle: I will try to do so briefly. First, I want to go back to 1965, when the agreement was signed. The Canadian parts industry was basically faced with duty-free competition from the United States, and the battle over the auto pact was basically because of the trade flows in the parts area.

The automotive parts industry is made up of about 400 individual companies. The bulk of them, 60 per cent or so, are Canadian-owned, small to medium-sized companies that have functioned in the industry for a long time. Various assistance programs to help these companies adjust were put in place in 1965 at the federal level and presumably at the provincial level. However, in effect the development of the industry took place in



assembly, which grew because large, multinational parts companies came to Canada to help the vehicle companies meet their commitments under the Canada-US automotive agreement.

In 1983, when we did the task force report for the federal government, the case was that the Canadian-owned companies' activity in the industry was about 11 per cent of the total output, which was at a level of about \$500 million.

11:10 a.m.

Since 1983 and the recovery of the industry, a number of things have happened. One is that the multinational companies which were once very heavily involved in the automotive area have divested themselves of some of their automotive operations. That took place in Canada and outside of the United States and other countries; so you have had a whole range of companies taken over or purchased by their Canadian management. The Long Manufacturing division of Borg-Warner Corp. is one. There are several in Kitchener in which that has taken place, and in Goderich. There are several in Quebec, and General Electric has spun off a number of them. That has been a very positive aspect of the development of the industry.

The second has been that, as a result of the task force process and the changing economic conditions in Canada, the vehicle companies, particularly General Motors, have been sourcing more parts in Canada and, indeed, have changed their strategy with respect to Canada. That has encouraged the growth of Magna International, a Canadian company that has grown from virtually nothing into a \$600-million corporation during the past four or five years. There are others: Woodbridge Foam Corp. and A. G. Simpson, which, as Mr. Bursey points out, used to be a division of Monsanto.

Those incidents have occurred, whereas today, since 1983, the industry represented by the Canadian side has tripled its production. The reasons this has occurred are obviously economic in the sense that there was the relationship between Canada and the United States and the value of the dollar. There is the whole question of wage rates in Canada, which are lower both in the nonunion sector and in the union sector. There is the raw material arrangement.

At the federal level we have had the industry and labour adjustment program and the industrial and regional development program, which were made available to individual parts manufacturers which wanted to expand. Of course, the Ontario government has introduced a number of programs during a period of five or six years, the most recent being the automotive parts investment fund, which was absolutely crucial to small and medium-sized companies in the expansion of their own operations to meet changes in technology.

The most important aspect of what occurred in trade policy, in my opinion, was the fact that the federal government was forced, through the intervention of this industry, the unions, the car companies, ourselves and the government of Ontario primarily,

in many instances, to become cognizant of the impact of allowing unrestricted imports into the Canadian market.

While I would like to take credit for the fact that the industry has grown and that it is all a free-trade, entrepreneurial environment, government policy--both trade policy and economic policy with respect to incentives and other assistance--has played a very large role.

Mr. McFadden: One further follow-up on that. You mentioned that monetary policy has had some effect in that the weakness of the Canadian dollar is to some extent an incentive to the industry.

There has also been discussion about the relative level of productivity. You mentioned the difference between Japan and the United States and the fact that plants in the United States are now producing cars for almost the same price as they can in Japan. In your sector, vis-à-vis American and Canadian plants in the same industry, my understanding is that the Canadian companies are at least as efficient as the American parts manufacturers and more so.

First of all, is that correct? Second, how important is the relative strength of the dollar? Do you think that if the dollar were to go up, we would nevertheless be competitive?

Mr. Lavelle: Those are a lot of questions. I will try to answer as I see it.

First of all, the dollar plays a very big role in the competitive environment in which we find ourselves at the moment. Obviously, the lower the dollar goes, the more competitive we will be; if it goes back up to a level of 90 cents US or more, we will lose some of our advantages.

As for the productivity of Canadian workers or firms in comparison with those of the United States, I do not know that there is any definitive study of it. We are currently involved with the union and the companies in a study for the federal government on the manpower question in the industry.

My impression is that the competitive environment at present in terms of productivity is very much the same in Canada and the United States and that there is no significant advantage in that area. We are looking at a period of great change within the labour-management system. I do not think the changes have yet had the impact on the domestic situation in Canada and the United States that they would have in comparison to the Japanese. We are moving in that direction.

When one is looking at the comparison between wage levels in Canada and the United States, the Japanese themselves have published a document in recent days comparing a location in Ontario to a location in Tennessee, in which they have indicated there is a \$10 differential in unionized wages, and in nonunion wages between Ontario and Tennessee there is \$1.50 advantage to Canada.

The question of our competitive position is pretty well recognized at the moment. I do not know whether that answers your question. If we are looking down the road at the adjustment process with labour and the relationship of controlling costs, we are just on the doorstep of those changes. In my opinion, the Saturn project is a step in the right direction. Whether it will be carried through, I do not know.

Mr. McFadden: In some way, I gather, the Canadian and American plants in the auto parts area are roughly competitive or similar in terms of their productivity; none is noticeably more productive than the other. I gather from what you are saying, though, that obviously we face some significant problems vis-à-vis offshore manufacturers and that our varied exports of parts, for example, may be severely inhibited because we may not be competitive in Korea, for example.

Mr. Lavelle: I made reference in my statement to Mr. Bulloch, who constantly comes before these committees and says all manufacturing jobs are going to be in southeast Asia. He is presumably working on the theory that unless we do that, everybody in Canada should be making 20 cents an hour. That is clearly a ridiculous suggestion, in my opinion. It does not take into account the fact that if everybody is working for McDonald's, the wage levels are lower and the infusion of capital into the economy is going to be cut in half and the impact that has in terms of the family environment.

There is no way, in any circumstances, that we can compete with Korea in wages, now or for the foreseeable future. That does not mean that everything we produce in Canada should be moved to Korea, because if you are simply taking advantage of lower wages in products that are similar in technology, you are defeating your purpose.

Miss Stephenson: Productivity is not just related to labour, for goodness' sake.

Mr. Lavelle: I agree with that, but I think Mr. McFadden was heading in that direction in terms of where I thought the sense of his questions were.

Mr. McFadden: Actually, what I was aiming at essentially was to see what other export possibilities might exist for this industry outside of the United States, or whether we are basically looking at servicing a domestic industry with very little prospect of export.

One of the discussions we have had over the recent weeks has been a concern about overwhelming dependence on the American market and whether it is possible for us, Ontario or Canada more generally, to develop other markets so we are not quite as dependent on the American market.

Obviously in dealing with the United States we are competitive. Exporting to Korea or Japan, from what you said earlier on, has not produced that much. It may not be necessarily productivity, as you pointed out. It could well be nontariff



barriers, tariff barriers or any number of things that are blocking us out of those markets.

What I was trying to zero in on here, though, was that if we did not have tariff barriers, say, if they could be negotiated away, how competitive we might be offshore economically. I would agree with what Bette has said. I do not think it is just labour. Obviously research and development, production methods and many other things besides labour that will decide whether you are competitive on a unit basis.

11:20 a.m.

Mr. Lavelle: I agree with that. Canada does not have the pleasure since the automotive agreement is now in place. It would be a wrenching readjustment, having developed over the past 20 years with an American industry where, basically, we have been suppliers to that industry. If we had the ability now to look back to 1965, perhaps we should have done something different then rather than now.

We have to adjust slowly to the fact that the American industry is in trouble, is adjusting, and there are new players on the global stage who are, slowly but surely, moving into the North American market. We cannot forget that the North American market still is the largest automotive market in the world and perhaps the most robust. From a Canadian point of view, that is not a disadvantage. But when we do not control all the levers of power in terms of the decision-making process, we have to have something better. We have to have the kinds of arrangements we have plus a competitive advantage as well.

I did not mean to focus only on the labour question. With respect to the adjustment, there is nothing in the parts industry that we cannot do in this country in terms of producing quality parts or the productivity of our work force. But we do have a system in which the social costs, the wage rates and other costs are high in comparison to other countries with which we have to compete. Those countries have put in place very restrictive automotive-type arrangements where one has to be in that market to participate in it. There are a lot of difficult situations out there with which we will have to contend. I suggest we have to make sure our own market is in reasonably good shape first.

To go back one bit, in my statement I referred to a free-trade arrangement that has been negotiated or is in the process of being negotiated between the United States and Israel. I would like to make a couple of comments before concluding.

In the process of our discussions with the federal government, this issue has been raised time and time again as a model for Canada. I suggest to you that it is not a very appropriate model for our two countries, Canada and the United States.

First of all, the agreement calls for a free-trade area between Israel and the United States, even though we have expunged those words from our vocabulary in Canada. The level of trade

between the two countries totals about \$3 billion, which is considerably smaller than the volume of trade between Canada and the United States.

The other aspect is that it is an agreement which attempts to reduce tariff barriers between Israel and the United States, as opposed to our case where we are in the business of trying to negotiate away nontariff barriers which have been erected by US government agencies, in some cases, to prevent the importation into the United States of competitively priced Canadian goods.

The fourth item is the anti-dumping provisions. The International Trade Commission activities in the United States will not be eliminated by this provision of an agreement with Israel. Of course, this is where we as Canadian exporters have run into difficulties with the US.

The other important point I would like to leave with you is that in the course of our discussions on free trade in Canada, in initial instances there was very little attention paid to the idea of transitional assistance benefits, or a period of safeguards or the adjustment process. Now, more and more, people are talking about the need for adjustment and long-term adjustment.

In the arrangement between Israel and the US, Israel has agreed to eliminate within six years its export subsidy programs on industrial goods and processed agricultural products in the process of subjecting domestic programs to a high level of scrutiny.

The other negative aspect of the deal is that it establishes a rather heavy bureaucracy of overseers who will remove the trade process from the political process into the hands of bureaucrats who will be able to make their own judgements and then deal with them. For instance, under the Israeli-US agreement there is a provision that even the process of setting exchange rates will be subject to some consideration by the committee.

I want to conclude my remarks by pointing out that, while we are a trading nation and rely on exports for millions of jobs and a large percentage of our gross national product, at some point we must recognize that before we engage in broad arrangements which open domestic industries to fierce competition, nontariff barriers and unfair trade practices, we have to take action on the domestic front to ensure that we are engaging in fair trade and that our domestic industries have the wherewithal to compete.

As I have already said, in the largest international industry, the automotive sector, no other country, no matter how sophisticated, internationally committed or competitive, engages in a trade in which the domestic parameters are not completely drawn by the domestic government.

In Canada, we in the private sector have been urging governments for years to improve our export development capability, to duplicate such programs as the domestic international sales corporation that has been introduced in the US to encourage exports, to improve delivery systems to domestic

industries and to tighten up our import laws. While some progress has been made, there is no domestic strategy in place that provides us with the luxury of opening our markets still further.

I suggest to you that some governments have their priorities backwards. It is important to improve the domestic infrastructure so we are competing, as the Americans say, on a level field, and then to proceed to put in place an export trade strategy which puts Canadian industry in the forefront of expanding world trade.

Thank you very much for the opportunity to appear before the committee.

Mr. Chairman: Thank you very much for your presentation. It was very well received and you should not be surprised if some of the points you raised this morning end up in our report.

Miss Stephenson: Except the one about the vestal virgins. I do not think that Canada's lack of skill in the GATT negotiations has anything to do with either virtue or virginity. You would be much wiser to compare us with some backwoods bumpkin rather than--

Mr. Mackenzie: "Patsy" is a better word.

Miss Stephenson: A backwoods bumpkin, I think. Clem Kaddiddlehopper was the name that came to mind when we get into GATT. Our sophistication is at such a low level that we never succeed at doing anything. That is what we need to develop some skill at.

Mr. Lavelle: Absolutely. I would draw that inference and I would agree with the word "patsy." Our problem is an inability to come to grips with tough questions.

Mr. Chairman: We now have a presentation from Alan Heisey. Mr. Heisey is a consultant and he has some comments.

ALAN HEISEY

Mr. Heisey: Mr. Chairman, members of the select committee, ladies and gentlemen, I am appearing as a private citizen. It was the height of luxury that I, as a private citizen, might come on at 10:45 and the auto parts manufacturers had only 45 minutes. I have some enclosures but I would just as soon you put them away and let me have at you for a few minutes.

I would like to touch on three themes. The first is that we have giant attitude problems when it comes to our relations with the US, absolutely awesome problems of attitude, because of what has happened in the last generation. That is the first point I will address.

My second point is that I do not think we should lose sight of how magnificent an opportunity complete and unfettered access to the American marketplace is, how close it is, how big it is, how friendly it is, how much we need it and want it.

11:30 a.m.



My third point is to think big. I think we can get so involved in sectoral things and in safeguarding that the perception of where we are heading is not easily put forward.

I was interested that you had the auto parts people here. At one time I had an idea for a book on the car industry. I suggested it would be an interesting book and a guy said to me, "You could call it The Short End of the Stick." You have to understand that, while we in Canada protect our minorities, we do not protect ourselves as a minority in our attitude to Americans. I think we have an incredible problem with hostility towards the majority because we are a minority. That attitude needs to be recognized. We basically distrust them. We do not think we can get a good deal in negotiations with them. We get that with our mother's milk.

It is the same way in which many French Canadians get the view they cannot trust the English Canadian majority. I maintain that until you look that right in the eye and say it is all tied up with the analogy of the mouse and the elephant--now it is the flea and the elephant. My point is that unless you have the perception of a man addressing a man or a person addressing a person, you have a giant problem. We think they are more numerous and richer than we are, and that therefore they are better than we are and can negotiate better than we can.

I honestly think you cannot exaggerate that as a problem. I work in a safeguarded industry. You will remember there are still strategic industries in Canada in which we cannot cope with foreign competition at all. I work in the newspaper industry. In the newspaper industry the Tories, Liberals and New Democrats all agree that only Canadian investors can publish newspapers because you could not trust a foreign newspaper and you could not trust Canadians to read a foreign newspaper. I am in the unhappy position where either I work for a Canadian investor or I go without work. Everybody accepts that except Allan Fotheringham and Alan Heisey. It is nice to know there are two of us in Canada.

Let me tell you about another business we felt that way about, banking. That was another safeguarded industry. We said we could not have competition in the banking industry. I wrote a chapter of my book on that because it struck me as one of the great tragedies. It was not the New Democrats, the working man's party, that got banking competition into Canada. The Canadian political parties were unanimous--that is where the title of my book comes from, The Great Canadian Stampede--that we could not tolerate competition in the banking industry.

The reason we got competition in the banking industry in Canada was because Canadian banks were so strong and successful abroad that finally foreign governments informed the banks, "If you guys do not open up your market a little, we are going to shut ours." That is a story that needs to be told. There is a case where the safeguards worked against the interests of the worker and protected the interests of the Canadian investor in the banking industry, as they do today in publishing.

I like to hear the auto parts industry discussed because there was a Tory MP whose name escapes me from down in the London

area who sort of knew that maybe there had been a bum deal and we should have an election about it. Paul Martin said, "Let us have an election on free trade in automobile manufacturing." The Tories were opposed to it and the Grits brought it in and the Grits were in favour of it. You will notice the Tories backed right away from that.

Free trade, partial free trade or safeguarded free trade has done wonders for this province in automobile manufacturing and do not ever lose sight of that.

The second point I want to make is that business is well ahead of the politicians in recognizing the existence of the American common market. I like that concept. Between the first and second founding congresses of the United States, the 14 colonies had tariffs. In the second congress they eliminated them and created the American common market nearly 200 years before the European common market was created. I make no apologies for wanting to see that market changed to become a North American common market. I want in.

I guess the theme of my remarks in one word is "compete." I think the theme of the past generation, which I consider has been a lost generation, is "protect." When in doubt, run to big government and government will safeguard you and protect you and protect the interests of the working man and jobs. Look at the money we have spent buying out oilfields instead of developing new industry. We misdirected \$10 billion in this country in the last generation. I guess I am kind of an angry old man because I think we have wasted a generation on this topic. We have wasted a generation when we tried to butt out the world and I think we did a good job.

I suggest you now address a big plan. I put down here that I kind of liked the way Jim Gillies--I heard him give speech after speech because he was my local MP--talked about a school teacher saying, "Make no little plans." Do you remember that? I suggest you need to think in terms of the North American community. I do not think God was there with Sir John A Macdonald, guiding his hand, and that this was the ultimate expression of political relationships. They are going to change and the only question is whether you are going to keep up with the change, pace the change or lag the change. It is my opinion that our country has lagged all these changes for the last generation partly because we have a protected and protectionist press, which we all love and would not change--except for me. I would let Knight-Ridder Newspapers Inc. into Canada. I would let them publish. I would let them offer me a job.

The point I make is that you need to think in terms of the North American community because we can do better in that to prove to ourselves that we can compete, negotiate and hold our own. You have to think in terms of the North American community rather than going into the American common market because you do have a tremendous problem with the Champ Clark mentality which is still alive. You may remember Champ Clark was the Speaker of the American House of Representatives. In 1911, during the famous reciprocity debate, he was the man who said, "I look forward to



the day when the Stars and Stripes flies over North America to the North Pole."

You have to face up to the fact that manifest destiny is alive and well and that Americans do believe that we have an inferiority complex--or some do; I do not--in Canada about our capacities. The Americans do have a superiority complex and this is part of their problem attitudinally. They think God was there with George Washington. I am suggesting that shifting these two century-old relationships is going to come slowly, but I suggest we start catching up.

Recently, I saw a most interesting example. Time magazine in its European edition is having so much trouble with the American dollar that it has stopped pricing its rate card in American dollars and is pricing it in ECUs, the European currency unit. That sort of shakes me, the idea that it has come that far and it is that close. I suggest to you that someone has to originate the concept of the NACU, which could be either the North Atlantic currency unit, if you wish, or, on an interim basis, maybe for a generation or two, the North American currency unit.

Frankly, I think the Yankee dollar is a great dollar. I happen to think I would sooner have them Canadian currently, but the point is it kind of frightens us because this would be a takeover. The concept of a North American currency unit would, first of all, be good for the Mexicans and, if we get going, maybe the Mexicans can come along later.

I was interested in your discussion this morning with the parts manufacturers which tended to get into the multilateral context, but the thing I like about the Canadian-American relationship is I believe there is a North American ethic developing in the United States. I believe there is that perception of something more than the nation-state.

You get into the question of the inch process. If you guys and ladies are going to labour on with this sectoral approach, then we can take another generation or two on it. That is okay for people who have an infinite amount of time. Apparently the political scientists call that "the inch process." You take each step an inch at a time and when you prove it out, then you go on to the next process.

Mr. Taylor: It is called the centimetre process.

Mr. Heisey: Forgive me. I am still converting.

The concept I like is the other phrase that I think needs to be popped into this discussion, which is the convoy approach, because with GATT you are in a big convoy. It is the same as in our company, when we do things in these massive committees--and all big companies know this--you move at the speed of the slowest ship. Frankly, the Canadian-American relationship is sufficiently vigorous and good that we can get on with moving ahead to our own selfish advantage and also to the advantage of the Americans.

Those are some of my remarks.



Mr. Chairman: You are not concerned that we will be completely overwhelmed culturally and so forth? Is that what is in your brief?

11:40 a.m.

Mr. Heisey: You have to understand that our cultural industries are persuaded, and they have persuaded the political masters, that their industry must be safeguarded. In culture in Canada, we insist on protection. You cannot publish magazines. We have 30 per cent content in broadcast music and we are worried that we have only 50 per cent content in broadcasting. Percentage Canadianism is a way of life in culture. I do not believe in it. I actually do not think the test of accomplishment is that books in the English language in Canada be X per cent Canadian published. You still see that on the front pages of the afternoon newspapers here. I think we have hurt our progress towards internationalization and regional communities by protecting our cultural media. I think they are quite inadequate to the circumstances we have.

The other thing that hurts particularly is they are free to invest abroad and create jobs for foreign working people, but foreigners are not free to create jobs here in Canada. In culture, that is called the free enterprise system.

Mr. Chairman: However, you are not concerned about that.

Mr. Heisey: No. I think the best place to look at that is in broadcasting. I do not share the view that unless the Canadian Broadcasting Corp. is 50 per cent Canadian content it is not doing the job. I have been thinking of going to the select committee on national broadcasting policy, because my view is they are asking the wrong question and getting the wrong answer. How much broadcasting in the US originates in Canada? There is not even a thought about that because protectionism is so strong in the media. I would like to see us getting eight, 10, 12 per cent of North American broadcast time. That is the market by which I have gone.

The short answer is no. I am basically a Heinz myself. I do not have any concept of nationalistic or ideological purity. I think more American input in all sorts of industries could be beneficial. I trust the judgement of the Canadian public on that.

Mr. Chairman: However, you do not realistically think we could ever negotiate getting 10 or 12 per cent of the North American market, do you?

Mr. Heisey: I do not trust governments to negotiate for the marketplace. I think if ever there was an industry that should be getting ready to shuck off its safeguards in the North American context, it ought to be auto parts. With two decades of safeguards and a 35 per cent discounted dollar, if they cannot cope without safeguards in that industry, they never will. I do not want the government to negotiate anything more than the setting.

I think you obviously have to have a transition period,

because the cultural media are hopelessly out of tune with what is going on in the world. I think they have to catch up.

Mr. Chairman: Have you looked at all at what sectors of our economy would disintegrate? Are you concerned about that? Presumably some would.

Mr. Heisey: That is the Mitchell Sharp view, that we would be sunk without a trace. I always thought that was the ultimate statement of defeatism for a Minister of External Affairs. When he was pressed on the point he said, "That is an overnight free trade." I do not think anybody is walking around saying we should have total free trade with the US tomorrow morning. However, one could have that as a concept, and a period of 10 or 20 years for certain industries that needed protection.

I heard someone talk about the Ontario heartland. I like the concept of the Great Lakes heartland. I think it is a unifying concept we have backed away from because it means we would have to get closer to the competition down there. I have a view the managerial and cultural élites are more afraid of the competition from the United States than the Canadian working man is, because they are not so sure they can compete. That is only one man's view.

Mr. Chairman: The Great Lakes heartland, though, may not be as healthy as the Atlanta, Georgia, one.

Mr. McFadden: I have a question vis-à-vis the previous statement. The Canadian government's posture and effectiveness in negotiation have been compared with everything from vestal virgins to Clem Kaddiddlehopper. That is not a particularly good image or appearance. It can lead to a lot of caricature.

With respect to moving from here, what kind of role do you see the Canadian government playing? Do you see its negotiations as quite laissez-faire or fairly tough with respect to the kind of entry Canadian manufacturers and others might get in the American market, the removal of American nontariff barriers, their whole Buy America Act programs and all the other programs they have to protect their interests, which often they are not prepared to put on the negotiating table.

The question I am getting at really is the kind of posture you see the Canadian government taking in negotiations with Washington to further the direction you are proposing, namely, I gather, moving towards a free-trade area and perhaps some form of customs union, maybe a monetary union. I was not sure.

Mr. Heisey: You have heard certain salesmen talk about how great it is going to be. The concept of how great that economic association with the US could be for both parties is something with which you always run the risk of people saying: "Look, the Canadians are giving up. They have finally recognized what a wonderful thing we have down here and they are begging to be let in."

That is the problem we have attitudinally, but I think we have to live with that because there are certain non-negotiables in Canada. We have to know what is non-negotiable and what is negotiable and we have to settle down and do it. I think this whole thing could turn the American union on like absolutely nothing else. I have written a lot on this and I think the Americans are far more receptive. I think the process, once it starts, will become very dynamic, but it has to start with what you people are doing here and what the federal committee is doing. You have to start saying, "This might be."

I personally think the wealth of Canadians will go up markedly with greater specialization and ability to compete in the North American terms of reference--textile workers, shoe workers, the steel industry and everybody else--dealing in a larger league where people have to compete. I am not worried about our ability, once you get the negotiations going, but the Canadian government and the opposition parties have to start talking about it.

As a guy who is essentially a continentalist, I think the change in the last two or three years has been wonderful, and I think the reason for the change is that economic nationalism was hurting so badly. We were buying out plants and not creating new ones at a time when we could have been creating new plants. I think bad times have helped to make the US look like a better relationship.

Mr. McFadden: In the short run, are you advocating this inch by inch? I take it you are saying that sectoral free trade should not be pursued; you would by far prefer a general agreement.

Mr. Heisey: I like the concept of the grand design. Churchill used that as one of the chapters in one of his books, and I think the concept of the grand design is an exciting concept.

Do you mean that maybe we are not going to try to build Boeing aircraft in Canada? One of the implicit assumptions in Canada that needed to be addressed in the last generation and was not is that Canada is a mature and accomplished nation and can therefore do anything and everything. That was a big illusion. Canadian school kids were resentful, instead of being grateful and delighted, because Americans did so many things for us.

I think you need to have the grand design and then say: "Maybe it will not happen in our lifetime. Maybe it will never happen, but it is something to think about." I happen to think that if you get a good concept and you get the Yankees turned on, the thing that will scare you is how fast it could happen.

I have always been a believer in it. If you get NBC, ABC and public television all going, attitudes down there can change so fast. They are incredibly receptive to Canada. They really think we should be a part of them. I really think they should be a part of us.

Mr. Chairman: An American has asked me why we do not at least approach them and see where negotiations would go. But why do they not approach us?



Mr. Heisey: They are too busy. That is part of the American problem. Everybody has his hangups. The American problem is that they are trying to manage the world, so they really cannot get themselves too preoccupied with this little northern backwater. There is something we have to do. We have to say, "I know you guys are going to save the world from the Russians, but in the meantime, what about something more practical, like expanding your domestic market by 10 per cent?"

11:50 a.m.

The Yankees have problems in all this, and their problem is that they are in a much bigger league than that. Part of the problem in Washington is to get their attention. I think the only way you can get their attention is by a substantial statement.

Maybe Flora MacDonald was right. You will notice Flora has changed her tune, but she used to say that the last word on this was said in 1911. That was one of her favourite themes. Maybe it needs to be addressed in the 1980s, 70 years and two generations later. Maybe we could take another look at it.

I think the whole point is we have lacked the self-esteem that we could do well at it. That is the basic point. There is a mentality in the country that says we could not compete in the relationship. My view is we would flourish. It is a little like working for a big company. There are a lot of people around who think big companies are bad places to work. Actually, big companies can be marvellous places to work because they can have an elegant environment in which to work that is liberated and that sort of thing. It is like working for the civil service.

Miss Stephenson: They can also possibly be good places for the inept to hide.

Mr. Heisey: A lot of hiding has been done under protection.

Mr. Morin-Strom: How much do you believe Canadians would benefit from a political union with the US?

Mr. Heisey: I believe there will eventually be another form of political relationship between Canada and other people. I do not know what that relationship would be, but I do believe a part of it will be a more cordial and a closer relationship with the American political system. I have absolutely no trouble with that. I think it is going to happen.

Mr. Morin-Strom: Do you think that ultimately we are going to see a North American political union and probably a North Atlantic political union?

Mr. Heisey: Sure.

With respect to political union, the word "union" has a suggestion of the American union. I think "union" is a bad word to use. In my book I used the word "community." There is a nice quote, I think by some Yankee, on what a community is. I think you will see a North American community.

We would be smart to design an open-ended one so that it is not like the American one, which is a closed thing. We need to have something that is designed to be transitional. In other words, any relationship we espouse in terms of a political relationship with the United States obviously has to have North American, Mexican and Central American relationships. Those things come slowly but they have to start somewhere and they start with trade.

Mr. Morin-Strom: In the long run, is there any point in trying to maintain a Canadian identity?

Mr. Heisey: I will say so. You have to believe that. I am a fifth-generation Canadian. I like to quote D'Arcy McGee and his line about "one great nationality bound, like the shield of Achilles, by the blue rim of ocean...." In Canada we are not supposed to talk that way, but we have a lot going here. We do not have to worry about that.

Mr. Morin-Strom: What will be the essence of that identity once we are in a political and economic union?

Mr. Heisey: I do not favour a union. I am not speaking for that, but I do favour more cordial and closer relations. I think the essence of it will be the things that we do well. One of Mike Pearson's best lines was "the pursuit of excellence." Increasingly, in a world of specialization, Canadians will do fewer things, but they will do them to more of an international standard.

The idea that we feel we have to fill basically three networks--public television and two national networks--with Canadian content is an exercise in futility because I think it weakens the quality of the effort.

The discussion of Canada in the North American context is exactly the same as the discussion of Al Heisey and Southam Communications. There are 1,000 people who work there. Am I overwhelmed by the other 999 or do I flourish? Frankly, you find your place and your level. That is all I can say.

Mr. Chairman: Are there any other questions or are we overwhelmed?

Miss Stephenson: Mr. Heisey is suggesting he is a continentalist, but he is not suggesting we develop a union. He is suggesting we move in the direction of a community. I want to know whether you are one of those who perceives nationalism as a disease.

Mr. Heisey: No, I do not.

Miss Stephenson: Okay. Therefore, the maintenance of identity is an effort that should stimulate a good deal of our activity related to ways in which we could do what Lester Pearson suggested, which is to pursue excellence. If we are to co-operate in a community and pursue the excellence of our capabilities, will

that provide the kind of economic stimulus you perceive would occur if we became continentalist, in something I perceive as more anti-national than you are suggesting you really are?

Mr. Heisey: No, I do not think I am anti-national, but I find difficulty with the idea that the nature of man changes at Fort Erie. I find that 3,000 miles west we are still talking to people we love, who are Canadians with whom we have built up--what did Underhill say?--"A nation is a body of people who have done great things together in the past and who hope to do great things together in the future."

That is a great line, but I think part of the problem is that the national dimension of life tends, because of a nation's state, to overwhelm the regional, the family, the neighbourhood and all that sort of thing. As far as I am concerned, it is an important dimension, but it has become a matter of, "You cannot think beyond that, son, because that is all we Canadians think."

Miss Stephenson: Certainly, some of the presentations before this committee in the past and in the future are going to reflect precisely the point of view that we must be nationalists, and in order to be nationalist, we must erect barriers which may not appear to be significant barriers but which will protect us from the invasion of thought we find abhorrent.

Mr. Heisey: This is hard to remember, but when cable started to come into Canada, there was a little discussion about jamming American broadcasts. People forget that. There was not much--

Miss Stephenson: There was more than a little.

Mr. Heisey: --because they could not sell that to the Canadian public. The reason they are having trouble with content regulations is that the satellite is breaking it down. It is a shame that TVOntario, the Ontario government TV network, is not the first one to bring us European broadcasts unabashedly.

Forgive me, but I wrote about all of this in 1973. The month my book came out, the Organization of Petroleum Exporting Countries raised the price of oil by a factor of four, so we all went to ground for a generation.

Mr. Chairman: Thank you very much, sir. We shall adjourn till two o'clock.

The committee recessed at 11:57 a.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, AUGUST 19, 1985

Afternoon sitting



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Lazar, Dr. F., York University

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Kieran, J., Consultant

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, August 19, 1985

The committee resumed at 2:06 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: This afternoon we have Professor Fred Lazar of York University, who has a presentation he would like to make to us--he is here at our invitation--which he tells me will take about 15 minutes. If members will refrain from interrupting for that period of time, except for clarification purposes, I am sure he will entertain any questions thereafter.

PROFESSOR FRED LAZAR

Dr. Lazar: First of all, I would like to thank the committee for inviting me here basically, as I see it, to exchange ideas with them. I will try to keep my comments at the outset brief; I would rather deal with questions from the members of the committee.

Essentially I have two reservations regarding any free-trade arrangement with the United States. In saying this I do not want to be labelled or pinpointed as a protectionist or as an anti-free-trade individual. I just want to emphasize that there are many problems with the whole concept of free trade and the supposed economic benefits of free trade and that we have to be somewhat realistic in assessing the issue.

The first reservation I have regards the entire negotiation process and the resulting content of any free-trade arrangement or whatever else one may want to label this type of arrangement nowadays. The other question deals with the degree of the economic benefits that Canada can expect from any free-trade arrangement with the United States.

First of all, concerning the content of a free-trade arrangement and the negotiation process, several of the leading proponents of a free-trade arrangement with the United States have accepted the fact that certain safeguards or exemptions would be part of the package. I am not aware of any leading proponent in academic circles who has advocated a true, complete, comprehensive free-trade arrangement without any safeguards or exemptions.

That raises at the outset the question of what type of safeguards we should have in there and what industries should be exempted. There are no clear answers to this, and there are several problems that arise.

Even if we were to disregard the recommendations of these individuals and say, "Let us look at a true, comprehensive free-trade arrangement where we are essentially eliminating all tariffs



but, more important, all nontariff measures," we would have difficulties, and the difficulties arise with regard to defining what constitutes a nontariff measure. There is no generally accepted definition, and one can quite easily argue that just about any government policy measure, no matter how mundane it may be or how far afield from the trade area it may be, does have some direct or indirect impact on trade and hence constitutes a nontariff measure. Again, even if we are dealing with a comprehensive program to eliminate all nontariff barriers, we have a problem in defining exactly what constitutes nontariff barriers, and we may not be willing to do away with many of these so-called nontariff barriers.

There is that first problem. As I say, if we are going into negotiations with the United States, we have to know in advance what type of safeguards we want and what type of nontariff measures are not negotiable.

Second, in the past when it was a matter of eliminating tariffs, it was rather straightforward, although there were some difficulties in trying to measure the economic effects on one country or another of lowering the tariff by five, 10 or 15 per cent. Obviously the calculations are not accurate, but they are reasonable.

Nontariff measures are much more difficult. What are the economic costs to Canada and the potential economic benefits to the United States of eliminating certain research and development incentives? What are the economic costs to the United States and the economic benefits to Canada of doing away with some of the countervailing duty legislation the United States has in place?

It is very difficult to measure that when negotiating a free-trade arrangement and one is trying to make tradeoffs: "We will give up this if you will give up that." It is difficult to know whether what we are giving up is of equal value to what the United States is giving up. We may be doing better or worse, but from an economic point of view it is almost impossible to come up with any reasonable estimate as to the value of the nontariff measures we are willing to give up.

A second problem we have in trying to negotiate a free trade arrangement is that in the United States, under the constitution, domestic legislation takes precedence over any international agreement. If we did negotiate some type of free-trade arrangement and Congress and the president at a later date passed domestic legislation that somehow came into conflict with or invalidated certain parts of the agreement, the US domestic legislation would take precedence. The only recourse available to Canadians would be to try to renegotiate the arrangement, and there is no guarantee renegotiation would be successful.

A third problem the federal government obviously is looking at in dealing with the United States has to do with negotiating an arrangement between two central governments. The central governments cannot bind or bind for any length of time subnational governments--the state governments in the United States and the provincial governments in Canada. We might find that, if the US

government agreed to certain concessions, the state governments could introduce other measures to protect industries and companies within those states and those measures would not be covered by any national agreement.

A fourth problem is that any international agreement encounters the prisoner's dilemma problem. Suppose we are all better off as a result of a free-trade arrangement. At the same time, if one party decides to cheat on the arrangement and the other party does not respond, and does not somehow try to cheat as well or to gain some compensation for the other party cheating, the country that cheats would gain an even greater benefit.

The prisoner's dilemma problem boils down to both parties having an incentive to cheat, although it would be in both parties' interest not to cheat, and you run into the difficulty, how do you monitor and deal with cheating? Do you have some sort of supranational judicial body that will impose penalties which can be enforced on either party? If we look at the experience of the General Agreement on Tariffs and Trade or of the European Community, I would not have much confidence in any supranational body having much clout in enforcing an agreement.

As well, the free-trade arrangement leaves unresolved questions dealing with trade arrangements with third parties. What happens if the United States imposes different rules in dealing with countries of the Pacific Rim, Europe or the Third World from those of Canada, since the agreement we have in place only covers trade between Canada and the United States? That can raise a lot of serious questions.

In negotiating a free-trade arrangement, I do not think Canada or the provincial government is looking at concern that it is going to be a comprehensive agreement; the concern is, what type of exemption safeguards are we going to be looking at, and what is critical and crucial for the Ontario economy and for the people in this province? That has not been well defined or discussed, as far I am aware, at any great length in Ottawa or elsewhere.

My second serious reservation with the whole concept of free trade is, will the economic benefits materialize? By now you are familiar with some of the economic literature. I believe a few economists supporting free trade have already been before the committee. They will argue that Canada's poor productivity and technological performance can be attributed to impediments that restricted the size and the market available to Canadian firms and the subsequent inability of Canadian companies to exploit economies of scale and move rapidly down the production progress curve.

They have also argued, and no doubt presented some studies, that would suggest performance in these areas would improve considerably as a result of some type of free-trade arrangement. According to these arguments, such an arrangement would expand the markets available to Canada, and the increased competitive pressures would force them to rationalize their operations and specialize in a small number of product lines to take advantage of the opportunities available to them; hence the classic line that



Canada is one of the few countries that does not have a market of 100 million or more people. It has never been quite clear to me what is so magical about that figure, but nevertheless it gets bandied about.

The question arises: Are these arguments correct; will these benefits materialize? Despite some of the economic studies that are available--the only ones of any relevance are the one by Professor Wonnacott in the late 1960s and a more recent one by Professor Harris of Queen's University--suggesting Canada would gain an eight to 10 per cent net improvement through a free-trade arrangement with the United States, I have serious reservations that benefits, if any, would be anywhere in that range. Furthermore, in the absence of any government policies to ensure that Canadian companies would survive and adjust in this environment, I would argue that there might be net costs to a free-trade arrangement without any supporting government measures.

The reason I say this is twofold. First, economic theory does not have anything to say about the adjustment process, whether it be to a free-trade environment or any type of measure. Economists can talk about moving from one position of equilibrium to another and compare them, but they can tell you absolutely nothing about what happens during that adjustment period. They can tell you nothing about how long the adjustment will take and what will happen during that period. There is simply nothing in economic theory to deal with this critical problem.

Furthermore, I am not aware of any studies undertaken in this country that have examined how Canadian companies have adjusted to the tariff reductions following the Kennedy round. Some economists may argue that, although there were substantial cuts in the mid- to late 1960s as a result of the Kennedy round, offsetting nontariff measures were introduced in the United States.

I have examined what has happened in the United States with regard to nontariff measures. Those nontariff measures facing Canada have not increased in any significant manner since the termination of the Kennedy round. There has not been an offsetting increase in nontariff measures in the United States to compensate for lower tariffs in that country, and yet there have been no studies in this country to examine what the adjustments have been. Such studies are obviously quite important if one is to try to predict what might happen as a result of a free-trade arrangement with the United States.

That is essentially why I am so critical, but let me make a few more comments here.

If Canadian companies do not have the technological capacities, the marketing and managerial skills and the distribution networks in the US marketplace at present, these types of skills and talents will not appear magically as a result of our signing some type of free-trade arrangement with the United States, even if that is to be phased in over five to 10 years.

If we lack those skills, and there are several signs that suggest at least many of these skills are undeveloped in this



country, they will not be developed and will not appear without some type of government measures to try to assist Canadian companies. A free-trade arrangement will not ensure that Canadian companies develop the necessary skills to survive in a free-trade arrangement.

2:20 p.m.

Another point to make is the importance of economies of scale, and this law is at the heart of economic studies by Wonnacott and Harris. The importance of economies of scale in international trade may have been exaggerated. The evidence I would point to would be the experience of the high-tech companies in the United States, the experiences of some of the high-tech companies in Canada and some of the work Professor Don Daly at York University has done. Don Daly is also a strong advocate of free trade in this country.

When we look at this area, and we can look at other areas as well, we find there are many small companies in the United States and Canada that have succeeded in the international marketplace, and they have succeeded not because they are large enterprises taking advantage of the economies of scale, producing for a mass market, but because they have the technological capacity, entrepreneurial talents and marketing skills that have been necessary to translate certain ideas into products that have a competitive advantage over other companies.

We find that economies of scale and cost are not critical competitive factors for high-tech products. They are very critical for mature-technology products. In the mature-technology product lines, we find that developed countries are going to be relatively uncompetitive with the less developed countries.

Even if we enter into free-trade arrangements with the United States, in mature-technology products--this is where economies of scale are important--neither the United States nor Canada will be able to compete against low-wage countries of the Pacific Rim, Latin America and, eventually, Africa as well. The technology is very simple; production processes can be modified rather easily and established in many less developed countries where we have essentially unskilled workers. In the areas where economies of scale are important and cost is an important competitive tool, developed countries will not tend to be important centres of production.

Another point to make with respect to the traditional economic argument is that they treat products and technologies as givens; any country or company can produce, all of a sudden, any product and has access to any technology. The standard trade models essentially ignore dynamic changes in comparative advantage; as a result, they cannot predict what will happen over time to a country's comparative advantage, especially in the higher-technology product lines. In other words, standard trade theory is of little value in dealing with dynamic changes in productivity and technology and, hence, with changes in comparative advantage and trade patterns.

In areas of manufacturing not involved directly in the initial stages of the processing of natural resources, a country does not automatically obtain a comparative advantage in a particular product. Some people like the traditional theory that you either have or do not have a comparative advantage because of the resources available in a country.

I would argue that in most manufacturing sectors, comparative advantage is not a given; it is a result of the interplay of a country, the location and firm, specific factors. The interplay of these different factors determines a country's areas of specialization and, in turn, these factors are the legacy of historical developments, social and cultural attitudes and government policies; policies aimed at promoting technology and enhancing exports; policies in the areas of science, education and manpower training; policies affecting governments' attitudes towards private enterprise, etc.

Comparative advantage is not a given; it is affected by government policies and it changes over time. In other words, if we are to benefit from any free-trade arrangement, from an opening up to some greater extent of the US marketplace, it is necessary that the federal and provincial governments introduce measures that will engineer the country or the province's comparative advantage; measures aimed at trying to create viable entities, enterprises that can succeed in a freer trade environment and that can be more internationally competitive.

These measures would include policies in the areas that would require rewarding entrepreneurship, policies that would promote or increase the availability of financial capital for new ventures, policies aimed at increasing our technological capacity, policies ensuring that manpower is available in these areas and policies aimed at export promotion.

The obvious reaction to this is: "Wait a second. You are talking about the possibility of government picking winners, picking losers." That is not my position. My position is that we are looking at government setting up a series of policies trying to create the environment in which entrepreneurs flourish, in which companies have a chance to be established and have some initial advantage created by the government that will enable them to have a better chance of surviving in the international marketplace, allowing the market to pick the winners and losers but creating the environment necessary to ensure that Canadian companies will succeed. It is not a matter of picking winners or losers.

I should warn there is no guarantee and there is no way it can be demonstrated that any government package or set of programs will be any more successful than the absence of such measures. However, to argue that we should do nothing is rather foolish, because we have a whole host of what might be called industrial policy initiatives at this time. What I am really arguing for is to try to fine-tune the whole host of policies that are in place at this time--taxes, grants, subsidies, etc.--to get rid of those measures that are totally useless, to try to fine-tune those that have some merit and to introduce others that are lacking at the present time.



That is my position. We can call it industrial policy or industrial strategy, but we need this in place in order to ensure that we will gain some net benefits from a free-trade arrangement. Other than this phase of the problem, any of these measures are obvious nontariff barriers and, unless we have the policy package in place, it will be quite difficult then to negotiate any free-trade arrangement since we will not be quite sure what type of nontariff barriers we need or want to maintain.

The final point I want to make is with regard to the study by Richard Harris of Queen's. This study has shown rather dramatic gains to be available to the Canadian economy from a free-trade arrangement with the US.

There are a few problems with this. First, his study covers data 10 or 15 years later than those of Wonnacott, and yet the gains from free trade are on about the same order of magnitude as those of Wonnacott. What I find surprising is that this suggests that during that 10-to-15-year period, while there has been a reduction in Canadian tariffs into the US marketplace, there has not been any of the so-called reorganization or specialization of production; there have not been any of the benefits that were supposed to have resulted from a move towards freer trade. If those benefits did not arise during that 10-to-15-year period, I find it very difficult to believe they are going to arise in the future if we move into a free-trade arrangement.

The second point to make with regard to the study concerns the economies of scale assumed in his model. He made the assumption that certain economies of scale would be realized in various industries. He plugged those figures into the model, and it is just a set of assumptions. There is no fundamental research that supports those values.

Third and most critical is that his study does not deal with the adjustment process; it was not geared for that. He assumes that if we move into a free-trade arrangement, we will get these benefits. He cannot predict what areas we are going to specialize in, since neither his model nor economic theory can do that with any degree of accuracy. Moreover, he simply assumes that these results will accrue; he has no economic theory that can support his position or ensure that Canadian companies will adjust in the manner necessary to generate the results produced by his model.

That concludes my comments. I look forward to any questions.

2:30 p.m.

Mr. McFadden: In our discussions, the preponderance of witnesses who have appeared seem to be advising us that a full free-trade treaty is not on for a lot of reasons. We have received that from the Ontario Federation of Labour through to the Canadian Manufacturers' Association. The thrust of most of the submissions, the odd one excepted, has been towards some form of sectoral free trade in certain areas, and perhaps some form of multilateral freeing up of trade through GATT.

The thrust of your remarks was towards a general free-trade



agreement of some type. Based on your professional experience and observations, what is your view of sectoral arrangements whereby we would designate only certain industries for special treatment towards free trade?

Dr. Lazar: I have a few problems with that. You have the difficulty of ensuring that the sectors Canada selects overlap with sectors the United States selects. There is always the possibility the two sets simply will not overlap. If they want to deal with A, B and C, and we want to deal with D, E and F, the sectoral negotiations fall apart at the outset.

It that is not the case and there are some overlapping sectors, we cannot expect another auto pact arrangement.

The auto pact arrangement provided for production and employment guarantees for Canada. The US simply will not accept that. I say that as a result of discussions I have had over the past four or five years with various people at different levels of the US government. They all look back on the auto pact and say: "That was a mistake. We will not repeat that mistake. We will be willing to look at eliminating various barriers, but we are not going to introduce any production or employment guarantees." Indeed, production or employment guarantees are a nontariff measure.

Another problem of the sectoral approach is that if you do work out some agreement for a particular sector or group of sectors, you may find that the excluded areas--industries that were not on the table for negotiations go ahead and lobby their governments--put even greater protectionist barriers.

That is a particular problem with the US. If certain industries see they are not going to be considered in sectoral trade negotiations with Canada, they may take that as a signal from the US government that they are now free to lobby the US government for even greater protectionist measures. We will run that risk. If we free up trade in some areas, we may find greater protectionist measures in other areas.

Mr. McFadden: From what I could gather in terms of a reward system, encouragement for increased capital in certain sectors, I detect you are suggesting you want to reinforce strength; it is the old military maxim. Government policy should essentially aim at building up companies that eventually will be competitive, not only domestically but also in an international market. Is that an accurate statement of how you see government policy going in terms of industrial strategy?

Dr. Lazar: I would say that once you see some Canadian company developing some niche and some strength in the international marketplace, then you provide that particular company with additional assistance to prop it up to push it through. I am not advocating we sit back and say, "Here is our target sector and this is the company we are going to support from day one." I would rather you create the environment, so that for this tax spending, this subsidy grant system you have in place, you let the marketplace make the decisions. Once some potential

winners and successes arise, then you give specific assistance.

Mr. McFadden: If this policy were to play out for a few years and we developed, for example, petrochemical industries or whatever it might happen to be, and did exceedingly well in those industries, are you suggesting at a certain point down the road it would be advantageous for us to pursue liberalized or free trade with the United States or a general liberalization worldwide? Or are you just suggesting that is a way for us to deal with the world as it is currently constituted?

Dr. Lazar: I am saying introduce the programs, first of all, and see if these Canadian companies evolve over time, and only then start trying to liberalize trade. We have to decide what programs are necessary to assist in the creation of these entities and what programs may be necessary at a later stage to push them over a certain threshold. Those measures, as I have said, will all be nontariff measures. Regardless of how you define them, all these policies will constitute some form of nontariff measures.

We need to know in advance what type of policies we want to have. Then while we are negotiating the liberalization of trade, bilaterally or multilaterally, we know that in a negotiating position these are programs we want to keep in place and are not willing to trade off. There are other things we are willing to trade off or do away with, other programs we may have in effect now that are of no value. We will be willing to give those up in return for other concessions from another country.

Trade discussions can go on at the same time as we introduce these programs, but we must know prior to initiating these trade discussions exactly what we need to do in this country to ensure that Canadian companies will become internationally competitive. Then we will know what our negotiating position can be.

Mr. McFadden: You are basically in favour of opening up trade, but you feel right now we are not strategically very well positioned to get into these discussions economically.

Dr. Lazar: I would argue that if we just run headlong into trade negotiations and try to sell the idea to the Canadian people that a free-trade arrangement is going to solve all our economic ills, we are selling it wrong. That is not going to be the case. A free-trade arrangement by itself does not solve our problems. Other measures are necessary. A more liberal trade environment will not hurt as long as we have these other measures in place. We want to ensure that we do not run into negotiations and give up certain measures that we find out at a later stage are important.

Mr. Knight: You have indicated in your presentation that free trade by definition is unattainable, or certainly elusive, and if it was attainable, it would probably be only fleeting. That is a realistic observation which has been presented to us by other delegations.

We have heard of managed trade, which I guess from your presentation and from others can mean various things. It can mean,



as you have indicated, government support and government programs within our own country to strengthen our position. It can also mean sectoral trade talks bilaterally with the United States or other countries.

Is your position that we should not have bilateral talks at all with the US until such time as there is an industrial strategy in place in Ontario so we are able to strengthen our hand in negotiations, or are you suggesting that bilateral trade talks could continue at the same time?

2:40 p.m.

Dr. Lazar: When I discuss this in the classroom, I always say we should enter into these negotiations because it is a good make-work project for the people in the Department of External Affairs. To be more serious about it, I think before we enter into any trade negotiations--that is, with the US or perhaps in a few years in another GATT round--we need to know in this country what policies are required to create viable Canadian entities.

I have opinions; I want to have answers. Other people have opinions. There is no theory saying, "This is the set of required policies that will guarantee successes." Nobody can do that. You can speculate and present arguments. What we need in this country is essentially a good debate on and airing of the issues to determine what types of programs are required and might have a chance of succeeding in creating viable Canadian entities. Once we know that, we can then know what policies to dispense with and what new policies to introduce.

Once we work that out, we will know what we require in trade negotiation, what we are able to give up, what we should not give up and what we might be able to negotiate over. But if we just go in and say, "Let us get rid of tariffs," that is not that critical an issue. The critical issue nowadays involves nontariff measures. As I said in my presentation, almost any government policy can be defined as a nontariff measure and it is difficult to determine the costs and benefits of giving up any particular nontariff measure. We run in and say: "Here is our package. We will give up points 1 to 4. We want you to give up points 1 to 4 in your list." That is really rather foolish unless we know the consequences of our giving up 1 to 4. That is the weakness at the present time.

Mr. Knight: You are really suggesting the reality is that trade is going to continue with the United States. Managed trade is probably the objective we should try to achieve, but it is a matter of the timing of negotiations in that we do not have the background information to enable us to make sure that our discussions are going to be profitable for Ontario and Canada.

Dr. Lazar: That is right. At the present time, as I say, there seems to be some urgency to negotiate an agreement on the false belief that this agreement by itself will solve our economic problems. In response to the question asked earlier, that is the wrong way to sell any such agreement. Liberalizing trade will produce some benefits down the road, maybe some rather dramatic



benefits, if we have the right programs in place in this country to ensure that we capitalize on it. But to go ahead and say we do not need any government policies and that free trade alone, regardless of how defined, is going to solve our problems is absurd.

Mr. Mackenzie: What you are saying with your last comments is, in effect, that we really need some kind of industrial strategy and economic plan in the country before we start tinkering with the trade arrangements.

Dr. Lazar: I have argued for many years in favour of industrial strategy. I will not use the term "economic plan." I have got into many discussions and, if you talk about industrial strategy or industrial policy, it always boils down to how you are advocating picking winners or losers, government somehow saying, "This sector we support; that sector we do not support." That is not the way I envision industrial policy.

Mr. Mackenzie: I am not sure I agree with Mr. McFadden that we have had at least a glimmer of a case made for sectoral arrangements. It certainly has been discussed, but what I have heard coming through more clearly than the acceptance of sectoral trade strategy is an argument made by a number of proponents of freer or enhanced trade that the protectionist trend in the US, which is our major market, is becoming so powerful or overwhelming at this time that enhanced or freer trade is really our defence.

I find it rather strange, but you almost get a sense that if we are not willing to enter into some kind of arrangement, we are going to be in real trouble as a result of growing protectionist policies in the US. What is your response to that argument?

Dr. Lazar: I am familiar with that argument and I know Wonnacott is emphasizing it now that we have to slip in under the protectionist barrier before it is too late.

I guess my response takes the following approach: One, in a lot of cases in which a protectionist measure somehow affects a specific Canadian or Ontario industry, the practice has been for the Canadian government to deal with the US government and try to negotiate around it. Some will say: "This is going to affect us quite seriously. I do not think your people have really dealt with or analysed it."

In most cases, we have been able to work out some compromise, favourable in the sense that it has not had any serious negative consequence for Canada. There is no reason to believe this cannot continue. Any time a bilateral matter arises, we could negotiate. If we cannot do that, then I have no confidence in being able to negotiate a much more comprehensive free-trade arrangement.

If this is the excuse for rushing headlong into a free-trade arrangement, another problem is getting exemptions from these protectionist measures. We have to keep in mind what happens if our trade surplus continues at current levels. Congress is

focusing now on that fact and has pointed out that Canada now has the second largest trade surplus with the US following Japan. They are beginning to look at areas in which we are sensitive.

If we had a free-trade arrangement, Congress could overrule any of these agreements. It might not approve any negotiated by the executive branch or it might introduce some other domestic policy that somehow invalidates part of our international agreement. If protection sentiments are going to increase, a free-trade arrangement that somehow exempts us at present provides us with no guarantee down the road. So there is that particular problem.

Finally, I would argue against the last point with respect to this protectionist barrier. If we are going to negotiate, sort of get in under this protectionist fence, Congress is looking at Canada and the trade surplus. They may stipulate some rather significant concessions we have to make in order to get exemptions, which, as I said before, we have no guarantee will last for any prolonged period.

They may say, "In order to get any exemption from the countervailing duty legislation, anti-dumping legislation, unfair trade practices legislation, etc., Canadian and provincial governments will have to forego the following measures." That may be a very high cost for us, especially since at this time we are not quite sure what types of policies we want to maintain and what the cost and benefits are of any particular government policy.

Miss Stephenson: I was going to ask a question out of sheer curiosity. The concern you express is that there has not been sufficient research and study in this whole area. The Kennedy round was completed much more than a decade ago. The Tokyo round was completed at least six years ago now. I thought economists were notorious for examining all aspects of economic development in a critical fashion. Yet you say only Wonnacott and Harris have done any studies and you disagree with both. Why have you or some other economist not done some studies to support the assumptions you have made regarding trade?

Mr. Taylor: They do not get enough from universities and education or government grants.

Dr. Lazar: That is the easy answer.

Miss Stephenson: That is the one I am used to. Now give me the other one.

Dr. Lazar: Why have I not done it? I will speak for others, but--

Miss Stephenson: Yes. Why have other economists not done so?

Dr. Lazar: Let me speak for other colleagues--that is easy--and then I will speak for myself. Economists, by and large, favour any liberalization of any market. It is consistent with

standard economic theory. You had the Wonnacott study in the 1960s, and it was well known. Harris has been working on this for a few years; he was been coming up with results that are favourable. So why bother studying the adjustment process? We do not have any theory to tell us what is going to happen in that event anyhow; so it is all going to be sort of ad hoc, empirical work.

We had one study in the 1960s that supported standard economic theory. We had another in the 1980s that takes it as accepted doctrine; so why rock the boat?

2:50 p.m.

Miss Stephenson: But surely if you are looking at it with critical scientific glasses--

Dr. Lazar: No, economists are not critical; they are not objective. Keep this in mind, there is an accepted doctrine.

Miss Stephenson: I keep on hoping that one day there may be one that will turn out to be.

Dr. Lazar: It is an accepted doctrine. What you do not want to do is say: "This is accepted doctrine. I do not want to dirty my hands with data that may somehow be inconsistent with this. First, it is going to be criticized by all my colleagues anyhow; second, it is not going to be published anywhere because it is going to be critical of the accepted doctrine. As it is a sort of publish or perish world, why bother doing this?"

Miss Stephenson: Good God, you have just advanced the greatest argument for the total destruction of the discipline of economists that I have heard for the last 10 years. Can you give me a better one?

Dr. Lazar: I can give you better reasons.

Miss Stephenson: Why do we bother?

Dr. Lazar: In my specific case, I have had involvements with the trade issue since about 1980 or 1981. I did a study of the Tokyo round-US protectionist measures. I was really just becoming familiar with--not the trade literature, I knew that beforehand, but the trade dealings, the legal side of the issue. I essentially spent about two or three years doing that and ongoing work on industrial organization, how companies behave and help firms involved, and that has been more of a theoretical interest.

The question then becomes, "Why am I not doing the empirical work now?" I can say I have tried to negotiate with two groups in Ottawa to do this study. It is time-consuming; there is a lot of data to be collected. You can argue how being an academic does not restrict my activities to just the university.

In both these cases, one under a Liberal government, there was not any interest because the government then was committed



towards free trade and did not want to finance a study that somehow might be critical. With the second one, it just happened that when I was on the verge of signing an agreement, the science council got wiped out shortly before that agreement was signed.

Miss Stephenson: Stuart Smith must have something in his back pocket that he could give you to do this.

Dr. Lazar: Stuart tried, but when he is firing people left and right, he cannot go ahead and say, "I have a few bucks here to do this," although he was interested in getting involved. I have been interested in doing this. I have been piecing information together, but it has not been an exhaustive, empirical study. Sure enough, I would like to do this and I may do it, but at the present time I am more involved with the evolution of firms and industries.

Miss Stephenson: But you could at the present time look at the information which has been used by Harris and use your assumptions rather than his.

Dr. Lazar: But then you know that what we are doing is just quibbling over assumptions.

Miss Stephenson: No. You are suggesting that the basis of the difficulty is his assumptions, which are incorrect.

Dr. Lazar: Yes. We were at a conference together and that criticism came out, it was levelled by someone else and Harris accepted that. For about a year or so, Harris and I were daily thrown in with as sort of travelling road show discussing free trade industrial policy. They always needed someone to present the opposite point of view, and I was invited for that reason.

Harris's paper came up over and over again, so we have gone over this. I can go to him and say: "Look, Richard, here are my assumptions re economy to scale. Plug them in." I know exactly what the answer will be. The answer will be that there will be no net benefit to Canada, and he knows that as well. Then we get into an argument over whose assumptions over economies of scale are correct. It does not get us far. The critical assumption is what happens to the adjustment. Will, in fact, Canadian companies do this?

Miss Stephenson: But there has been enough experience with adjustment, even in Canada, since the Tokyo round, which is significant, I think, which might provide you with some solid information.

Dr. Lazar: No doubt. It just has not been dealt with. Even more important is the experience in the European community over the past 20 or 25 years, and that has not even been studied by economists.

Miss Stephenson: I am glad that economists have not been more active in providing the route for our health care in Canada; we would probably all have been dead by now if that were so.

Dr. Lazar: They have been providing a lot of advice.

Miss Stephenson: They sure as hell have, and most of it bad.

Dr. Lazar: Fortunately, it has been ignored.

Mr. Chairman: You will remember that--I think Dr. Stephenson was away--we came upon this problem earlier, that there is a real lack of empirical data and we have tenders out now. In fact, both Professor Harris and Professor Lazar are preparing proposals to us that we will be considering.

Miss Stephenson: Correcting a deficiency is always a wise move. My concern is, why have the economists not been doing it up until now?

Mr. Chairman: I realize that. In any event, we are trying to do it now, especially as it concerns Ontario.

Dr. Lazar: The more important question is why the Macdonald commission did not try to do this?

Miss Stephenson: Yes, okay.

Dr. Lazar: I have had some experience with them. There were two reasons they did not do it. First, they did not want to fund any new research. They wanted somehow to control the cost of the commission. That was the original motivation.

Miss Stephenson: Come on, you are joking.

Dr. Lazar: I know Donald quite well, and that was the original motivation. The second reason they never did the type of research that was required is that you basically had that area of the research taken over by your standard, traditional, neoclassical economists--the boys from Queen's and Western. They had no incentive whatsoever to undertake research that would cast any type of question or doubt upon the research they have done in the past and the fundamental theories that are accepted and taught over and over again in the universities.

Mr. Mackenzie: Is not one of the reasons really that before you get a major study there has to be some interest group or motivation for it? Now you have the conventional economic theory wisdom that more open trade is in. There has not been that I am aware of--maybe there should have been--an interest group that has been willing to push for an alternative study. I do not know of one.

Miss Stephenson: The academic mind is not supposed to function that way. It is supposed to be critical, assessing and examining constantly and looking at all that is developed and, if they disagree with what has been developed, pursuing their own directions.

Dr. Lazar: That is right, except when it comes to publishing. If you pursue your own direction, which is at odds with the accepted mainstream, your work never sees the light of day.

Mr. Mackenzie: That is right. If there is not a contract there or an interest group that is willing to promote it--

Dr. Lazar: That is the way it works.

Mr. McFadden: You are saying that there is almost a conspiracy of silence--

Miss Stephenson: That is right.

Mr. McFadden: --of sorts in the sense that if you published an original research that might work against the mainstream, you would have difficulty getting it published.

Mr. Taylor: Does not the New Democratic Party have--

Dr. Lazar: Look at it this way.

Mr. McFadden: It is a fairly serious matter. I am just saying, not to cloud this issue, that is true of a lot of things.

Dr. Lazar: If you come up with a theoretical finding or a solid empirical work that basically says everything you have been theorizing about and teaching for the past 15, 20, 50 years is nonsensical--

Miss Stephenson: But what if it based on solid and critical academic pursuit of this subject?

Dr. Lazar: You have a vested interest in a profession. This is what we teach our graduate students. This is what we teach our undergraduates. The graduate comes up and says: "This is what I have learned. This is the correct word. If I am going to get any publications, get tenure and get promotions, this is what I better write. I am not going to criticize." Who writes critical pieces? Senior professors who are five or 10 years away from retirement. They do not have to worry. They can say, "I can now sit back and I can philosophize." Their work is generally dismissed as the work of philosophers and not theoreticians.

Miss Stephenson: This is terrible. Tenure is supposed to protect you, you keep telling me, so that you are able to do these things which are unpopular, against the mainstream, going in the direction which you perceive as absolutely essential in order to broaden the base of knowledge. Yet you are telling me that everybody is afraid to do it.

Dr. Lazar: No, not everybody, just most people. If you want to get the publications and promotions, you do not go against the mainstream.



Miss Stephenson: I am glad I did not know this last year because I would have been recommending the total destruction of all of our universities and starting over again.

Dr. Lazar: I would not have had any difficulty with that position.

Mr. Chairman: Any other questions? This has been very interesting indeed.

Dr. Lazar: Less on free trade, but more about what happens in the profession.

3 p.m.

Miss Stephenson: It has been a stimulating discussion.

Mr. Chairman: Thank you very much, sir.

We now have representatives of Connaught Laboratories Ltd.: Alun Davies, the president; Robert Binnerts, director of technology transfer; and Jon Kieran, a consultant.

Mr. Chairman: Who wishes to start?

Mr. Kieran: I will, Mr. Chairman.

#### CONNAUGHT LABORATORIES LTD.

Mr. Kieran: Mr. Chairman and members, we appreciate this opportunity to review some of the opportunities that international economic affairs have presented to Connaught Laboratories.

Connaught is perhaps moving from the abstract to the pragmatic. It is one of those classic examples of an Ontario business that has found an international niche and has developed it with considerable skill. As a consequence, it has developed a very strong capacity to maintain employment in Ontario within the Ontario technology spectrum from the routine white-collar and blue-collar work force to the post-doctoral research area.

I will give a brief description of Connaught and a very brief review of its history to position some of the opportunities we would like to discuss with you.

We see Connaught as a very sophisticated researcher, developer, manufacturer and marketer of biological health products. These include such materials as vaccines, insulins, blood fractions and biological diagnostic products.

The labs were founded at the University of Toronto in 1914. Historically, there has been a very strong sense of partnership between Connaught and the Department of National Defence through two world wars. Connaught had its initial vaccine stimulus in the terrible problems of disease that occurred within the military during the First World War. As a consequence, it developed one of the world's more serious vaccine research and development organizations at that time and has maintained it to this date.

Connaught was acquired, modernized and commercialized by Canada Development Corp. in 1972. At present Connaught is owned by a partnership that consists of Canada Development Corp. and outside investors as part of CDC Life Sciences, which is a vehicle taken public a few months ago and now publicly traded on the Toronto Stock Exchange.

I would like to address briefly our trade and international affairs in two contexts, the first being the United States and the second being the rest of the world.

Connaught has a very important presence in the US market for vaccines. The United States is also a growing export market for diagnostics produced, manufactured and researched in Canada. There are some trade barriers; they tend, by and large, to be subtle, but they are very significant.

The principal US trade barrier is the cost of licensing products. Licensing a product is a complex area for negotiation or discussion because it is based on the principle that a local market is responsible for the safety and efficacy of sophisticated or complex health products. It is very easy on the grounds of safety to establish factors that result, in effect, in the protection of local industry.

Connaught has discovered that there is an appropriate and acceptable solution to the subtle trade barriers presented by the United States. It is not an ideal solution, but it is a solution; it does work and it works adequately for the people of Ontario. Our solution is that we export research and development knowhow and manufacture locally in the United States for the US market. That makes it possible for Connaught to maintain a much larger and more sophisticated research and development facility in Toronto than it would otherwise.

In terms of world markets, it is important for Ontario and Canada to be sensitive to the fact that in the world there has been an extraordinary concentration of biological products in the period since the end of the Second World War. At present, there are but five world-class, full-line vaccine research, development and manufacturing entities in the entire western world. Connaught is one of the five.

Sixty per cent of all vaccines manufactured by Connaught in Canada are exported to markets around the world. Connaught's survival depends on exports.

Perhaps I should explain one of the cruel realities of economies of scale. We used to think as recently as 10 years ago that a population base of 50 million was sufficient to justify a full-scale research, development and manufacturing facility for vaccines. We now know that figure is unrealistic.

There is some broad sense that perhaps a population base of 100 million might be marginally adequate to support the high-cost research that is essential, not only to develop new vaccines but also to ensure that you make the tiny incremental improvements to old vaccines that keep you competitive with the other four

full-line, world-scale vaccine manufacturers. Perhaps that 100 million population figure is low; it probably is.

As a consequence, exports to countries around the world justify the production of some vaccines in Canada that otherwise would be totally uneconomic. The benefit accrues to the people of Ontario and to the other provinces of Canada. The pricing benefits resulting from economies of scale cover the full spectrum of all vaccines researched and produced in Canada.

Perhaps I should say a word about the issue of self-sufficiency. The world received a very rude shock about 10 years ago when the United States announced there was the distinct likelihood that there would be an epidemic of a terrifying disease. Swine flu was the popular name given to that particular form of influenza. In the same breath, the President of the United States who announced the threat to his country also announced there would be an instantaneous and total embargo on all influenza vaccines to any country anywhere in the world.

That embargo has had a profound influence on all countries. Fortunately, the epidemic did not materialize and there were no deleterious consequences as a result of shortages of influenza vaccine in whatever countries those shortages existed. However, arising out of that single act of declaring an embargo, every single country in the world, however undeveloped, has had as part of its subtle national development plan the requirement to have some form of self-sufficiency for the critical vaccines that would be essential within its country in the event of an epidemic.

3:10 p.m.

Canada has enjoyed the fortunate position of being self-sufficient for all major vaccines, and this issue perhaps would be less significant to Canada were it not for one critical fact. That fact is that Connaught Laboratories exists as a healthy, profitable, successful supplier of vaccines in Canada at low, competitive cost because we export 60 per cent of our production to countries around the world. It is obvious we are not going to export it some time in the 1990s. We do not know when, but there are very few countries so mean in their national expectations that they do not at this point have some form of plan for indigenous manufacture of the essential vaccines which heretofore they have obtained primarily from Connaught Laboratories and other core world-class vaccine manufacturers.

Our exports are to two types of markets. There are exports to the developed countries and a considerable amount of transfer from Connaught to countries such as the United States, Japan and those of western Europe and vice versa. We also export to the underdeveloped countries, however, and we have learned very clearly that, as our routine export markets begin to dry up, we are going to have to face one of two things: either we must establish some form of subsidy, for example, from the Ontario Ministry of Health, so we can continue to produce smaller quantities of vaccines in Canada, or we must create a clientele or a constituency that covers a population base in excess of 100 million people.



The answer seems to be relatively simple in abstract theory but a little more difficult to apply in practice. Connaught undertook a radical change in business philosophy approximately six years ago at the instigation of Alun Davies, our president, and Bob Binnerts, our director of technology transfer.

Connaught became the first company in the world to establish a technology transfer department, which would undertake to sell to a developing country information, knowhow and technology, using the services of Canadian consulting engineers, Canadian contracting authorities and Canadian experts in biological product manufacture.

First, we would teach them how to establish a vaccine manufacturing plant. Second, we would teach their people how to manufacture vaccines. We did that in two ways: by bringing them to Toronto and giving them preliminary training and by having Canadian technical people go out to the countries where the plants were to be located and provide some degree of on-site supervision.

Out of this come two rather significant benefits for Connaught Laboratories. First, during the setup process, Connaught is selling immensely large quantities of bulk vaccines to these plants as they are run in slowly. As a consequence, Canada is taking over as the key supplier to these countries in competition against our other four major competitors, who are, incidentally, France, West Germany, Italy and Belgium. Second, and perhaps more important, we are establishing that the technology for the development and making of vaccines is Canadian technology, not some other country's technology.

There is one ancillary piece of information you should have. Vaccines are produced through a combination of science and art. There is much more art to the process than we would like there to be. The consequence is that because we are growing families of bugs, and bugs have an unfortunate capacity to mutate or to do things we do not expect them to do, it is absolutely essential for every vaccine-consuming country to recognize that you can never be certain you will always have a constant available supply of vaccines.

We have had incidents in Toronto, which is perhaps the most sophisticated vaccine-manufacturing laboratory in the world, where a lot has failed. Sometimes consecutive lots will fail. This does not involve the slightest element of criticism of the scientific authorities who run these labs. In other countries, it happens with much greater frequency, particularly in the United States and in western Europe.

The critical point to remember is that in every vaccine facility, you have to have a fail-safe mechanism, so you have the capacity to produce which is infinitely greater than the need to consume. So we see as a tremendous benefit to Ontario and to Canada in our technology transfer program the fact that throughout the next three or four foreseeable decades, Canada will always be the supplier of the extra material that makes it possible for us to maintain the economies of scale that are going to keep our vaccine prices at a reasonable level in Canada. Most important, we

are going to keep an extraordinarily talented group of researchers working constantly to provide the incremental improvement to the products.

There is one area of market I would like to discuss briefly with you because it opens the door to a fascinating problem. If this committee felt it appropriate, we would like your help in attempting to solve the problem. The largest single buyer of vaccines in the world is the United Nations. There is rather a hideous statistic that has to be faced, that approximately five million babies die and five million babies are permanently disabled every year predominantly in underdeveloped countries in this world.

The World Health Organization has established a program, called the expanded program for immunization, which is administered by UNICEF, the United Nations International Children's Emergency Fund. The UN has set as its goal immunization against the six most prevalent diseases of childhood worldwide by 1990. Unfortunately, that objective is not going to be met, because the target date of 1990 was unrealistic. The objective is both realistic and ultimately attainable, however, and as a consequence, the UN has become the largest single purchaser of vaccine in the world.

Connaught Laboratories is the second-largest producer of product for the UN. Canada is the second-largest financial contributor to the UN program for the eradication of the six childhood killer diseases. A fascinating problem has developed. It is historic within the administrative sections of the United Nations that there is a considerable amount of national self-interest generated within the bureaucracy.

Unfortunately, about a year ago, UNICEF moved its procurement facilities from New York, which tended to be objectively centred, to a country in western Europe, where the activities of national interest tend to get played a little more roughly; they take the gloves off. In the process, UNICEF has decided there will be a radical change in the procurement of vaccine. It so happens this procurement works to the total detriment of the North American producer--there being but one, which is Connaught--and to the total advantage of European producers, of which there are four.

Miss Stephenson: But just one of those, I gather.

Mr. Kieran: No. The system is that there will be split awards.

Miss Stephenson: They are now, are they?

Mr. Kieran: Yes; they are splitting. They have set up a system which had a certain logical symmetry. The UN never knows where it is going to use vaccines and in what quantity. They can average, however; so they have assembled very successfully enough statistical data to feel they know roughly what they are going to need in the future through a 12- to 24-month period. Then they call for tenders.



3:20 p.m.

The tenders--because you do not know where the stuff is going--are always based on f.o.b. factory, which means every vaccine manufacturer in the world competes for this business on the most basic of all criteria: price, quality and delivery date, the delivery date being "when we want it." As a consequence, a very substantial volume of this business flowed into Toronto.

UNICEF has decided it would be fun if from now on every manufacturer would tender not on the basis of his factory price but on the delivered price. Therefore, they will say: "From now on, everyone will tender on a cost, insurance and freight basis, and we will apply some arbitrary factors to cover transportation. We will do some equations that will allow us to average out big volumes and small volumes." Guess who wins: whoever is closest to Paris, Brussels, Frankfurt or Milan.

We have asked the government of Canada if it would be concerned at what we consider a blatant form of favouritism to the European manufacturers. We think at the policy level there will be a solution to this. We are not quite certain yet, but we have asked for a solution. The discussions are proceeding, albeit slowly. I will come momentarily to an area where we think Ontario could appropriately involve itself in this area.

Technology transfer is a very interesting concept. It has never been done before. No other vaccine manufacturer in the world has done it. We have three projects. The first project was done under the economic auspices of the Canadian International Development Agency. It was a medium-sophisticated plant in an underdeveloped country, Pakistan. The plant was financed 50 per cent through the government of Canada's aid program, and all local currency requirements were financed by the host government. The plant was contracted to Connaught Laboratories along with the full responsibility for run-in, training and supervision of staff, duplicate quality control, etc. We are pleased to report the plant came in on time and on budget.

A couple of years later, UNICEF had access to some funds that had been donated by an Arab development fund, and it called worldwide tenders for a very sophisticated vaccine facility in a developing country. Each of the major manufacturers around the world bid on it. The successful bidder was Connaught Laboratories, and that plant was brought in on time and on budget.

The third plant is now building. We cannot tell you with absolute certainty that it is on time and on budget except that as far as the schedule is concerned, it is on time and on budget. We are very proud of this success rate.

Miss Stephenson: Where is this third one?

Mr. Kieran: They are all in Pakistan. Pakistan has rapidly become the developing world leader in the area of biological health products. We have a very happy relationship with the health authorities in that country.



I would like to give you an idea in terms of gross economic factors of what technology transfer will mean to Connaught Laboratories in the immediate future. At present, we are discussing the sale of vaccine technology transfer programs in countries as large as the People's Republic of China and in countries that have populations as small as 60 million or 70 million people. The potential export sale from Connaught Ontario is \$300 million over the next five to seven years.

We need a little bit of help from the government of Canada and perhaps from the government of Ontario to bring all or as many as possible of these programs to fruition. I would like to give you a quick rundown on some of the problems the government of Canada has in dealing with vaccine technology transfer. This is not meant to be a criticism of the federal government; it is simply an exploration of where the reality lies in some of the problem-opportunity analysis.

You will probably laugh when I tell you what kind of problem exists with the Canadian International Development Agency. CIDA has a very strong administrative system, and one of the cornerstones is that administrative officers are evaluated in their work performance by the ratio of time expended to dollars expended. The less time you spend per dollar spent on behalf of the agency, up goes your performance review.

If you find yourself assigned to an \$800-million hydroelectric power project that takes only one day a week, do you ever have a sensational report! On the other hand, with a vaccine technology transfer program, depending on the type of vaccine and the degree of trading complexities, any individual plant is going to come in in a range of from, say, \$3.5 million or \$4 million to a maximum of \$8 million to \$10 million.

There is an enormous amount of administrative work. You have to co-ordinate the engineering consultants and all the onsite work. You have to ensure you have the right people selected to bring back to Canada for training and the right Canadians to go there. From an administrative point of view, any CIDA officer who has the bad luck to draw the black straw suddenly discovers his performance evaluation goes straight down. That is not a problem we are asking you to look at or help us solve. I just thought you would be amused, if that is the correct word, at the problems that can exist.

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The second problem--and this again is not your area--is one for the federal government. However, we will perhaps come to where there is a mutuality of interest.

I have told you about the United Nations International Children's Emergency Fund and the difficulties we have. We have problems not only with UNICEF, but with the United Nations Industrial Development Organization. UNIDO, the development agency of the United Nations, paid Canada, Ontario and Connaught the supreme compliment of asking Connaught Laboratories if it would prepare a paper analysing the whys and wherefors of vaccine technology transfer for delivery to an august body of UNIDO senior representatives. The paper was duly prepared. Mr. Binnerts wrote

it and presented it in Vienna and got a very warm and positive response.

Out of that arose the establishment of a committee by UNIDO setting up an organization to assist and encourage developing countries to enter the field of vaccine technology transfer. Lo and behold, UN politics struck again. The chairman of the committee is a distinguished French scientist who just happens to be the founder of one of the other five world-class vaccine organizations.

A Canadian was selected to sit on that committee; not Canada, a Canadian. A distinguished Canadian scientist was induced to accept an appointment to the committee providing he recognized and accepted he was not the representative of Canada, that he was a personal selection because of his great knowledge. The consequence is that all our competitors are sitting on this committee and they know where the first tentative steps are being taken towards a vaccine technology program and we do not know. We have quite a problem in cracking that.

We are not asking you for help with that. We are just telling you the kinds of problems we have to deal with in maintaining our world leadership in that field.

I would like to tell you one more thing about financing. Financing is critical to the export of technology and product. It has been our experience that the Export Development Corp. of Canada is virtually useless as far as Connaught Laboratories is concerned. We would like to think Ontario would have more say, and would want to have more say in what the federal government is doing here.

3:30 p.m.

I am certain I will have no difficulty in satisfying you that EDC is really not a small to middle-size company resource. It is a resource that works beautifully if you are selling locomotives in the hundreds of millions of dollars. It is not much help to the small Ontario manufacturer who has to go out and beat the bushes for work in competition with the French, Germans, British and Americans and then discover someone such as the French will come in with a price that is 20 per cent higher than Canada's, except it is for 20 years at six per cent. When the EDC gets involved in this, it throws up its hands in absolute horror and it is goodbye, business, for Canada.

I would like to say a word about the Canadian Commercial Corp. This is a federal agency which functions as the contractor between the government of Canada and whatever host government is purchasing the product. You might like to know some government agencies work superbly. This is one of them. We give it absolutely the highest points.

Now, however, I would like to talk about Ontario, because we have a very strong commitment here. We have had many discussions with government officials relative to exporting a product. Before touching that side, I would like to say we have also had rather



extensive discussions with the Minister of Health. I do not think we have ever had any contacts, whether they be disputes or agreements, that have not resulted in a very strong, positive feeling on the part of Connaught Laboratories Ltd. towards the Ontario Minister of Health.

We have had somewhat different feelings relative to some other departments of government. Our first area of concern is one we think is readily correctable, and we hope this committee is sensitive to the opportunity. As we see it, there is not an effective liaison between the governments of Ontario and Canada in the area of export financing and international trade.

I know Ontario has agencies. We talk and deal with them. The Ontario International Corp. in particular is superb, it does everything within its power, but it just does not have the horses within the regular ministry, or within OIC, to do everything. One thing they do not have is the will to thump the desk, which the government of Quebec does with amazing regularity whenever a local industry has an opportunity to go for an export market of any consequence.

I and all of us have had considerable experience in dealing with the other provincial governments of Canada. I can give you absolutely unqualified certainty and assurance as to the vigour with which the government of Quebec attempts to act as a representative, sometimes on a positive, adversarial base as an extraordinarily strong supporter for any industry that will create jobs arising from export sales for a Quebec manufacturer. The energy with which that government pursues federal officials is remarkable. By and large, we have not had the same kind of vigour expressed by Ontario. Were there to be an escalation in the number and nature of consultations between this province and the federal government, we feel it would bring a very strong benefit to every Ontario manufacturer and exporter.

We think Ontario's export for success program is based on a principle that has much to commend it. One minor problem from our point of view--it is not a criticism of the program--is that we do not qualify. We are a little company with sales just marginally approaching the \$100-million-a-year level, but we are too big to qualify for the one really good, effective export promotion program the government of Ontario operates. We would ask this committee to give some thought to extending the capacity of this program so that companies such as Connaught would be able to qualify.

In another area, we feel that, were there to be a much stronger philosophic support for the Ontario manufacturing industry at large, provincial government representatives abroad could and would be considerably more effective.

In summary, Connaught is a vital resource to Ontario and Canada, and our sales to the United States and the international export markets and our technology transfer programs are the engines that keep vaccines available and reasonably priced in Canada and allow us to keep intact the largest and most sophisticated biological research and development staff in Canada.



We would like to ask you to be sensitive to the fact that we compete successfully around the world whenever the criteria are price and quality, but we would also like you to know that when predatory foreign governments offer predatory pricing to finance technology transfer programs or other exports or when the United Nations changes the rules to help European producers against North American producers, we need your help.

Thank you. We would be delighted to answer your questions.

Mr. Chairman: Thank you very much. Any questions?

Mr. Taylor: You mentioned some provincial programs and you ended on the note of seeking help. Could you define the type of help? The problems you have enunciated in your experience with Connaught Laboratories are not unfamiliar to a good many commercial organizations. Financing is the big one.

Mr. Kieran: I would like to give you an example. We ran into an administrative roadblock. It was dumb, but it was there and it existed within the federal government. We had to find some way around this roadblock or give up a very important export order.

We said to ourselves, why do we not do what the Quebec companies do and go to our Ministry of Industry and Trade and ask, "Would you please make some representations on our behalf?" Bob and I put on our dog and pony show. We went around and talked to a few people and the consensus was: "Do not rock the boat, fellows. They have already made up their minds down there. Why don't you write this one off and come back when you have a better project?"

That was about three or four years ago. Bob and I went down to Ottawa and we thumped some desks and did some end runs. The program ultimately proceeded very satisfactorily. Now they all try to pretend they were not opposed to it in the first place. There has not been a clear-cut articulation within the ministry that it is the job of Ontario to support Ontario industry in making representations to the federal government.

That is the point we are trying to make, not that Ontario should try unilaterally to solve the concessionary finance problem. That is a huge problem and one I suspect all of us will have to learn how to address co-operatively. The one thing this committee can do is to accentuate the communication to the ministry that the federal government is a legitimate and valid target for its positive support of Ontario industry. That has not been the mood of the Ontario government in the past.

Mr. Taylor: If I interpret you correctly, you are suggesting a stronger advocacy role on behalf of Ontario industries.

Mr. Kieran: Yes.

Mr. Mackenzie: I found your presentation interesting. I have a question. When you talk about the transfer of services, I guess that is what is involved in the exporting of the ability and the research and development in setting up plants in the US or in

other countries. Are those operations allowed to do research themselves? Is one of the components research, or is that all protected?

Mr. Kieran: They are allowed to. What they may not do is export to other countries.

3:40 p.m.

Mr. Mackenzie: I would have the same criticism there with your people that I had with a number of the plants we had before us in the select committee on plant shutdowns and employee adjustment. We found with disturbing regularity that branch plants were not able to do research and development or were not able to export. They were set up strictly for access to the Canadian market.

Mr. Binnerts: May I add to that? With the exception of the United States, any of the plants that we have set up overseas are not owned by Connaught. There is no equity of Connaught in any of those plants.

Mr. Mackenzie: Your licensing arrangements would prevent them from exporting.

Mr. Binnerts: The licensing arrangement would prevent them from exporting. Generally, in the country concerned, the demand is such that they have their hands full just trying to supply the local demand.

Mr. Taylor: That is import replacement.

Mr. Davies: There is another very important factor that is the best safeguard. The general argument against technology transfer is, are you cutting off the seed corn? Are you giving away what you can do locally? Remember we are in a high-technology industry which is moving very rapidly. Even after 65 or 70 years in existence, we still have production problems, as was alluded to earlier on. The best defence we have is making sure our technology moves ahead so that as we build these relationships with countries, what technology we used originally we are going to improve on. That is the only real safeguard.

Artificial values do not tend to work that well. Obviously, we would not like them to export to markets where we can. In our experience, that does not happen as often as you might think. Sometimes they request export rights. What you often find out is that they cannot supply even the local demand, routinely. The real world and the idealistic world, in this case, rarely come in contact.

The number of projects we have and our experience over the last six or seven years tend to give us confidence that an earlier concern that was raised by many people, and by our own board when we started to do this activity, does not really worry us provided we keep here that group of people who can continually expand our technology to be ahead of the game. The only security is to be better than somebody else.

Mr. Mackenzie: I have been impressed for some time with what I have heard and known about the operations of Connaught, but I have some difficulty with this concept because it has been used in terms of euhring us in the manufacturing sector time and time again. You might find we are in the same boat with your industry, in effect.

Mr. Kieran: What you are saying is that you have some difficulty with us putting our local responsibilities first. While I accept the grander principle, we live in such a savagely competitive world that we just have to scramble for every piece of benefit for every job we can create in Ontario. Much as I like the principle, I will not apologize for putting our Toronto operation first.

Mr. Morin-Strom: Your discussions have not directly addressed the issue as to whether a free-trade agreement with the US would be of benefit to Connaught or not, or what aspects of it might be of benefit or detriment to your business. My impression from what you have given us is that free trade is not a real issue for Connaught, that there are far more important things such as trade discussions and governmental policies that would assist your particular situation rather than an overwhelming focus on a bilateral trade agreement with the US. Am I getting the correct impression?

Mr. Davies: Yes. John did mention in passing that it was an issue but we felt we had a means of solving it as far as our industry was concerned. The reason for that was local production, we thought, applying to the US some time ago. The US being the largest market in the world for our kinds of products and the most profitable, the issue of the security of supply is even more important in the US.

We do export, however, in addition. Not all the products are made in Canada. We do export from--products are made in US. I beg your pardon. We do export from Canada.

The problem for us in the past has been the nontariff barriers. Unquestionably, the issue of registration where, for instance, it is much easier for a US company to register a medical product in Canada than the reverse. You just use US data, and normally after an inspection you get your product licence. That has never been the case going the other way. You always have to repeat your trials and do all the work and not only is it costly, but it takes another one or two years.

We have experienced a high level of frustration in that area during the last few years. Perhaps I can give you an example. When I joined Connaught in 1976 we sold approximately \$200,000 worth in the US; as of this year it will be close to \$20 million. I think that is a reasonable increase even for a relatively small company. That was through setting up a subsidiary and selling from Canada. Being good corporate citizens in the US and with a combination of exports from Canada and local production, we tended to get around those kinds of problems.

We still have them. As a matter of fact, only last week I had the prospect of some more delays from the US bureau for



something that should have been licensed a year and a half ago, and I think those kinds of regulations are still there. They are more an irritant than they are a major stumbling block, but they are still there.

Mr. Mackenzie: If I may just continue with this for a second, is licensing and registering the chief nontariff barrier you have in your particular industry?

Mr. Davies: Yes, by far.

Mr. Binnerts: May I just add that in the European Economic Community, the tariff barrier for our products, for biologicals, still exists. France still cannot export to Germany. There is no free trade; so I think any free trade agreement will not help that between Canada and the United States.

Mr. Morin-Strom: You do not see your industry as one in which nontariff barriers could be eliminated? Is it just too extensive a task to try to eliminate all those regulations or make them consistent between the two countries?

Mr. Binnerts: We would love it that way.

Mr. Davies: We are not hesitating because we believe we are as good as anybody. We would love it. I am not so sure the US would like it. I think this is one case in which the boot is on the other foot. There is no question that we are more efficient, we have a broader range of products and we have the basis for doing business. We would be very happy with completely free trade.

Mr. Morin-Strom: Do you think it is realistic to expect this kind of arrangement to be agreed to by US health authorities and the industry in the US?

Mr. Davies: I do not pretend to be any politician, but I think in this particular case there might be an opportunity, provided the issue of security of supply is addressed. If the US and Canada had an agreement that they would pool their resources in case of emergency, I think it could be done, because it is a small enough industry and a contained enough industry that both could benefit from it. The big issue really is having enough vaccine to vaccinate babies. That is the big deal. I think this is an industry in which possibly it could easily work.

Miss Stephenson: There has been an initial foray into that field when potential emergencies were developing, where the various state governments, for example, and the provinces of Ontario and Quebec got together and decided they would pool whatever vaccines were available to them in order to protect the population. There is a possibility of going in that direction, it seems to me.

If the World Health Organization were to accept the US guidelines for licensure and for registration of materials, and if those were broadcast all over the world--because most countries accept the WHO things--there really would not be any problem at all, because as long as they were the US regulations, the US would

accept them; if they were anyone else's, it would not. If you could fall into that line, then there would be--

Tell me. What has happened to the plant in Brazil? Is it there?

Mr. Davies: No.

Miss Stephenson: It is closed down?

Mr. Davies: No. We did not close it. It is very simply--

Miss Stephenson: You did not license it?

Mr. Davies: No. The government in Sao Paulo changed and cut off financing; so the whole thing just went down the tubes, unfortunately. It is as simple as that.

3:50 p.m.

Miss Stephenson: Can I suggest to you that some initial actions have been taken through one branch of Ontario International Corp. to attempt to strengthen the relationship with Canadian Commercial Corp., the Canadian International Development Agency and the Department of External Affairs? It is at least an attempt to improve communications so that there is some knowledge on the part of the various branches of the external activity of the federal government about what the other branches of the external activity of the federal government are doing, since that is also a problem.

It is a little frustrating when you have an arrangement with the Canadian Commerical Corp. and you find out CIDA is financing the group that is in direct opposition to what you plan to do for yet another Canadian group. Having been through that several times, I can tell you it is a pain in the neck.

I admit no provincial government does desk-pounding quite as effectively as Quebec. They simply say, "We are going to secede if you do not do it," and they get the money to do it. Maybe we should try it.

Mr. Kieran: I hope we made it clear that we really consider the operation of the Ontario International Corp. superior to those of the other agencies of the government of Ontario with which we have dealt.

Mr. Chairman: That is not saying much.

Mr. Kieran: We are high on them. We give them full marks.

Miss Stephenson: They are doing a lot, but they have not solved that problem yet.

Mr. McFadden: Your company seems to fit the image of a company that is of international scale. We hear a lot of discussion about this from economists. With your company, a critical mass, if you will, has somehow been achieved. You

mentioned there are four other manufacturing entities. I take it they are on a similar scale and are all in Europe. How did it happen none developed in the United States? Is this some sort of novel experience.

Mr. Kieran: There is a very interesting problem that is not so much relevant to international affairs, but is really a wonderful object lesson in a democratic society. I guess the United States has become the most litigious society known to mankind. As a consequence of the scale of jury awards through product liability cases, United States manufacturers have been abandoning vaccine manufacture at an extraordinary rate.

The result is that the US vaccine industry is now represented, with the exception of Connaught, by a tiny number of companies, each of which has but one or two products that are proprietary to them. They are able to maintain a very substantial margin beyond manufacturing costs because of the proprietoriness of the product. Therefore, they can add in marginal loads that make it possible for them to accept the litigious risk.

For example, the last jury award of consequence against one of our competitors was \$10 million. One of the interesting aspects of this--correct me if I am wrong, Mr. Davies--is that to the best of my knowledge it was never established that the company had in fact supplied the vaccine that caused the problem. However, US jurisprudence is not sensitive to that. They really do not care. As a consequence, the US market, however large and rich, is not one that excites the glands of manufacturers with a European frame of mind.

Mr. McFadden: How do you deal with that? You have a subsidiary there.

Mr. Davies: Very pragmatically. I think I can illustrate it by something that has occurred over the past year or so. About 15 or 18 months ago, when we came to renew our insurance coverage, we could not get insurance for DPT, diphtheria-pertussis-tetanus vaccine, which is a basic immunizing agent for babies and children. We temporarily had to supply only those orders that were outstanding. As a result, there became a pronounced shortage in the US, so bad that the US could not give the third dose which is normally required. It is legally required in many states.

They got themselves in a situation where there was not enough local supply. We were the largest manufacturer and there were only two other suppliers. One went out of business and said, "We have had enough." The other manufacturer could not scale up. For six months or more, there was a major shortage of a basic immunizing agent.

How did we cope with it? Very simply. We put the price up 15 times, and essentially each dose goes with an insurance amount of money. You add for every dose an amount of money that will pay for insurance.

Mr. Cureatz: Are you self-insuring it, basically?



Mr. Davies: We have what we call disaster coverage and we basically self-insure a large proportion of the risk. As the awards and risks go up, the price goes up. There has been such an outcry that Congress did not seem to be concerned with the philosophical situation, but now state and provincial governments are complaining that the cost of health care is going up so quickly that it is having an impact on Congress.

We have been very active in the US Congress with legislation that will cover vaccine damage to children, particularly as in many cases this is required by law anyway. We think that within the next year to two years at the latest some legislation will occur even in the US, and that is an interesting phenomenon.

Miss Stephenson: Have you had to increase the price in Canada?

Mr. Davies: No. Very fortunately, Canadian jurisprudence is a little different. There is not a contingency bar, etc., and the awards have not as yet been that significant, although they are creeping up.

Miss Stephenson: Yes, they certainly are.

Mr. Davies: I hope it is not going to occur here as it did in the US.

Miss Stephenson: It is an infection that does not seem to know boundary lines, at any rate. I gather that both British Columbia lawyers and Alberta lawyers have been suggesting it is not unethical to bill on a contingency basis, and their bar associations have accepted that, if I am not mistaken.

Interjection: I am not sure.

Miss Stephenson: It is contingency billing that has really done it.

Mr. Davies: I can give you advertisements from the Seattle newspaper that actually canvass patients. It is a frightening prospect that there really is this momentum.

Mr. Chairman: Any further questions or comments?

Thank you very much, gentlemen. You have given us a very interesting perspective from an industry that we otherwise would probably not have considered.

Miss Stephenson: Which is strictly Ontario originally.

Mr. Davies: Yes.

Mr. Chairman: We will adjourn until tomorrow at 10 a.m.

The committee adjourned at 3:58 p.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

TUESDAY, AUGUST 20, 1985

Morning sitting



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Witnesses:

From the Retail Council of Canada:

Doucet, G. W., Senior Vice-President, Policy  
McKichan, A. J., President

From the Communist Party of Canada:

MacLennan, J., Ontario Organizer  
Massie, G., Ontario Leader



LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, August 20, 1985

The committee met at 10:09 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: We have with us this morning from the Retail Council of Canada Mr. Alasdair McKichan and Mr. Gerry Doucet. As we look at them, Mr. McKichan is on our right and Mr. Doucet on our left. Gentlemen, we look forward to your presentation.

RETAIL COUNCIL OF CANADA

Mr. McKichan: We appreciate the opportunity to appear before you this morning. Perhaps I should take a moment to describe our constituency and the basis on which we proceed. With your indulgence, I shall not read this submission but rather speak to it.

The members of the Retail Council of Canada among them form something approaching 70 per cent of Canada's total retail store business. The definition "store" is used deliberately. It excludes restaurants, liquor outlets and motor vehicle dealers and includes most other retail categories. We estimate our percentage of business in Ontario as somewhat higher than the national average among our members.

This submission was prepared under the direction of a subcommittee of our executive committee, which was chaired by our first vice-chairman, Mr. Miller Ayre of Ayre of Newfoundland and J. Michaels, the chain they operate across Canada. In preparing it, the opinion of our members was very substantially canvassed and the submission has been approved by our national board.

Mr. Chairman: Do you mind if we interrupt?

Mr. McKichan: Please do.

Mr. Chairman: You say your membership is higher in Ontario than--

Mr. McKichan: Than nationally.

Mr. Chairman: Not by the number of outlets per capita or anything.

Mr. McKichan: In terms of the percentage of the total business we represent, but also in the number of outlets.

Mr. Chairman: So you are also saying there are more retail businesses per capita in Ontario than in other provinces.

Mr. McKichan: No. I am saying our membership has a higher penetration in Ontario than in other provinces, partially because our headquarters is located here.

Mr. Chairman: Thank you.

Mr. McKichan: In approaching this question, which we regard as probably the essential economic question of the balance of this century and probably beyond, we have taken a position from the point of view of the economy as a whole rather than from a narrow retail perspective. Our members are very much aware that they thrive and succeed to the extent that the economy thrives and succeeds and to the extent that Canadians have good jobs.

I say that deliberately because in the short term a closer trading relationship with the United States, however that is described, would probably not be in the immediate interests of our larger members at least. Whereas now they tend to be among the most important customers of their Canadian suppliers, in a market which was larger and more integrated they would lose that position and would probably drop down the scale very considerably. As I said, they are looking at the position from the point of view of the general prosperity of the economy.

When world trade is becoming daily more difficult, when in many cases we see nontariff barriers assuming much more significance than tariff barriers, when the level of tariff barriers even under the current Tokyo round will be dropping to quite small proportions and when such a high percentage of our trade is conducted with the United States and the forces of protectionism in the US are daily becoming stronger, our members felt we had four choices.

(1) We could do virtually nothing; in other words, persevere with the policies we have.

(2) We could seek more protection and, in a sense, become fortress Canada, if you like.

(3) We could pin our faith on the multilateral negotiations in the expectation that a new round would address our current problems, such as nontariff barriers and trade and services, which are becoming so important to us in Canada, particularly in Ontario.

(4) We could seek a new bilateral arrangement, presumably with the European Economic Community, the United States or Japan, whichever seems the most natural potential source.

It was the view of our committee in looking at these options, that the first one was not tenable because almost certainly it implied a quite substantial decline in the standard of living. The forces of protectionism in the United States would likely increase rather than diminish. Our most important market would erode, and we would be hard put to maintain anything like our current standard of living.

We also felt the second option, that of more protection, was also counter-productive in the sense it almost certainly implied that we would be isolated as probably the only developed nation with a market as tiny as the one we have. Again, we would simply exacerbate the problems we have with technology transfer, where we are already one of the less successful players, where we would lose any ability to specialize, which some of our most successful industries have been doing very well. We decided that was not really an option.

Skipping over the multilateral for a moment, we looked at the bilateral and we felt that of the potential partners we might negotiate with, a negotiation with Europe would be extremely difficult because the Europeans more and more seem to be withdrawing into themselves. Just recently we saw them favour, to Canada's detriment, not even simply a member of the European Economic Community but Sweden, in relation to the exports of lumber from that country. We did not think the European option is really realistic.

Japan, of course, is a possibility, but the enormous cultural differences between our countries and the well-known reluctance of the Japanese realistically to entertain large-scale entry into their markets for manufactured products would obviously make that kind of negotiation very difficult. It seemed that the US by far was the most likely possibility.

When we considered whether that should be an option or whether it should be done in parallel with the multilateral option, which obviously would be probably the most productive in the long run, we concluded that the two were by no means contradictory, that bilateral negotiations could be undertaken immediately and the multilateral whenever there was an opportunity to do that.

We noted that the last Tokyo round took something like 12 years to conclude. In our view, we cannot wait another 12 years or longer because it may be an even more difficult negotiation when the subjects being discussed are to a large extent services, on the one hand, and nontariff barriers, on the other hand, obviously both very complex, intricate negotiations.

Our committee concluded that, given there was a reasonable prospect for our industries in a bilateral situation, we should elect to investigate closely that situation first. If our expectations are fulfilled and if there is a reasonable prospect for our industries in a bilateral situation, we should vigorously pursue that. We will not know what the tradeoffs have to be until we start the negotiations, but at the same time we should be very willing to engage in the multilateral negotiations which have long-term promise for us.

Mr. Chairman: Your process of reasoning is that it is the best of a bad lot.

Mr. McKichan: It is not necessarily a bad lot. In the case of the bilateral, there are obviously hazards, difficulties and some trauma perhaps, but there is also great opportunity. I will touch on some of the elements we saw as opportunities.



First, it gives us an opportunity to safeguard what we have in terms of our enormous US market. There is nowhere more important, of course, than Ontario.

Second, it does give us the opportunity for a much more rapid diffusion of technology. It gives us much easier access to the technology available in the United States.

10:20 a.m.

It gives us the opportunity to develop the critical mass of business so as to be able to exploit world product mandates, which already some of our successful industries have done very well. Although this is a subject that has not been canvassed very thoroughly, it seems to us also that there is the opportunity not only to develop world product mandates for many of our industries, but also to develop regional product mandates for some of our industries in relation to the markets adjacent to us in the United States where a multinational company might well decide that the existing or new plant in Canada is best able to provide a regional service in our area.

Of course, it also gives us the opportunity to develop the service sector, which already accounts for 67 per cent of employment in Ontario. This is a statistic that amazes a lot of people, but the truth is that we are already in the service economy, of which our industry is part. Whether we like it or not, it seems that in the future most of our new jobs are going to arise in that sector.

We recognize the risks. We recognize that for specific industries the transition may be difficult, that there will be adjustment policies needed to bring about that change. We recognize that for many of these industries the most important element probably is timing, in that we do not think it realistic to assume that one day we will have the status quo and the next day we will have an enhanced trade arrangement with the United States.

Obviously, different industries can look to moving at a different pace. We are pretty sympathetic, for instance, to the brewery industry, which because of our own domestic legislation is obliged to maintain separate plants in every province. As a result, it has very small-scale production in relation to the huge US breweries, but given time, probably even that situation can be worked out.

We also recognize that other industries, such as the food-processing industry, have a particular situation because their competitiveness in many cases is tied to agricultural policy. Where our agricultural policy is substantially different from that in the United States, these industries may not be able to compete immediately on all fours with their US competitors.

In such situations, some difficult decisions have to be made, whether you go back and look through that industry and alter the agricultural policy itself or whether you maintain that

agricultural policy and recognize that in that sector special arrangements may have to be made.

Mr. Mackenzie: If I may interrupt for just a minute, do you feel there can be a very strong national interest in something such as the food industry? It is an industry in which we have already lost a heck of a lot of our productive capacity in a number of basic food products.

If this is one of the industries that is in trouble, we risk not only the adjustments that are involved in that particular industry but also something as basic as the need to feed ourselves as a nation. We are giving it up to some extent in terms of the difficulties that can arise down the road.

Mr. McKichan: What we are saying is that we recognize it is one of the more intricate industries and one that deserves special study and the closest attention, but again, in many sectors of the food-processing industry, the raw material is a relatively small proportion of the value of the finished product.

In other cases, for things such as sugar and cocoa and some of the grains and meat products, the raw material is traded internationally and prices are uniform. In those areas, it may well be that the Canadian company is well placed to develop a regional product mandate even if it is a multinational company. We do not know. It may well be the decision of the multinational owner that the Canadian plant should not simply be maintained but increased.

It seems to us these are the kinds of things that will be uncovered to some extent in the studies we know are now going on, not only by the Macdonald commission but also by the federal government and by some of the industries themselves.

We are not suggesting at any time that we leap into this negotiation blind. We have been keen to encourage the degree of study which it is possible to do be done and with great vigour, but at the same time we recognize it is not going to be possible to predict to a finite degree every last outcome of the situation. At some point, decisions have to be made as a result of informed judgment on the best evidence available.

Mr. Doucet: Perhaps I could I comment on that. The food sector is a very sensitive areas, especially for a province such as Ontario. In my experience of working, not just with manufacturing suppliers in the food sector but also with all the partners in the food chain from the producer through to the consumer, there are examples, and this is the theme of our submission, where by working together we want to have jobs in Canada and Ontario. We want producers of food in Ontario to have money in their pockets to spend in our stores. We have a vested interest in having as many successful farmers and manufacturers of food products as possible.

Where we have worked as a team in the food chain, whether it is with tomato paste--the tomato industry was under seige--or Dijon mustard for the North American market--why can we not

produce Dijon mustard for the North American market rather than import it from Europe?--we have achieved regional mandates and been able to produce or have started to produce those products in Canada.

We are definitely saying that those adjustments and those types of working out the supplier-retail interface vis-à-vis the North American market should be allowed to continue under this approach to Canada-US relations. It is a very important sector. The bottom line is full employment for Ontario workers, full employment for Canadians and higher incomes.

Mr. Mackenzie: Thirty years ago we canned about 70 per cent of the tomatoes we used in this province. Del Monte bought out Canadian Canners; they closed 31 of 37 plants across the province. Today we are canning less than 30 per cent and we have little influence on the doggone pricing. We can grow all we need of that product in Ontario. We sure as hell have not done very well, either on the jobs or on the supply of something as basic as tomatoes. I know; if you have a family the size of mine, you use one hell of a lot of tomatoes and tomato paste with pastas.

Mr. McKichan: The problem is that most of the imports do not come from the United States.

Mr. Mackenzie: I know. If you try to buy a can of Canadian canned tomatoes in the store today and you buy 10 cans, one is canned here.

Mr. McKichan: The outside possibility is that, with a larger Canadian basic unit, we might produce more tomatoes in Canada instead of importing them from Portugal and Italy.

If I may conclude, we are by no means insensitive to the cultural issues and the cultural discussions, but in the view of our members there are enough parallels around the world to give us considerable hope that we need by no means be swamped by our larger neighbour, even with considerably closer trading ties.

For instance, one looks at the situation of Austria and Germany, where the parallel is perhaps closest. They have a common language and a disparity in population that, while not as great as between Canada and the United States, is still overwhelmingly in Germany's favour, not only in the old days of integrated Germany but even now in relation to West Germany. The Austrians seem to be in no doubt as to their cultural identity.

One could say the same thing in relation to Belgium and France. I look inwardly at my own ethnic background and I would venture that, if any of you were parachuted blindfolded into a household in Scotland, you would have no doubt at all within the first three minutes as to whether you were in England or Scotland. In that situation, there has not simply been a trading union but a political union for 382 years. I think we tend to be too pessimistic about our ability to maintain our cultural identity, even with a closer trading relationship with the United States.

In summary, we recognize that there are risks, and we have



to do the most careful homework we can, but at the same time we think the risks of doing nothing or of moving in the other direction are at least as great as and, in the view of our members, considerably greater than the risks we are likely to experience by embarking on this enterprise.

10:30 a.m.

Mr. Chairman: Could you expand a little bit more on your membership? How many members do you have in Ontario?

Mr. McKichan: We have approaching 6,000 outlets, made up of corporate chains, franchised organizations and independents. We have something like 900 individual corporate member entities in Ontario, but some of these 900 represent hundreds of franchised owner-operators.

Mr. Chairman: By and large, the great majority of the firms are small, Canadian-owned businesses?

Mr. McKichan: Yes.

Mr. Chairman: You indicate that you are reflecting their concern about the cultural problem but that the economic advantages would overcome that, in the view of your members.

Mr. McKichan: Yes. In a constituency so large, obviously we have to operate by opinion sampling and by committee. The result of that process was the opinion I gave you.

As I say, the larger members do not stand to gain immediately in economic terms from a closer relationship. Instead of being the big boys on the block, they drop down to being, at best, medium-sized. On the other hand, they recognize that what is important is the welfare of their customers because it is the customers who spend the money.

Mr. Cordiano: How would a free trade deal that has been negotiated bilaterally with the United States benefit your members in the association?

Mr. McKichan: Whether it is free or enhanced trade, it would have no direct benefit. The only benefit would come, as I was saying, through the increased prosperity of the people who work in Canada's industries, who would have either more or less money to spend. In the view of our members, they would have more money to spend.

Mr. Cordiano: That is what we are trying to determine.

Mr. Doucet: May I add to that? It is not just more income but also a higher level of employment. It will probably be in different areas, but none the less our judgement is that, through the wealth creation of the benefits of scale and so on from the North American market, the unused capacity we have in a country such as Canada, although it might shift between industrial sectors, will be higher overall.

Our bottom line, our objective, is not free trade. Our objective is not a large manufacturing sector. After all, 65 per cent of employment in Ontario is in the service economy. Most of the service economy vis-à-vis the United States is open now, although there are some problems with it.

Mr. Cordiano: How much of that service-type employment is directly related to retail employment?

Mr. McKichan: Let me answer it this way: Distribution accounts for something like one in seven of the work force, and I suspect the proportion in Ontario is about the national average.

Mr. Cordiano: Would you expect employment in the future in your sector, the retail sector, to increase or decrease, as far as any plausible projections go?

Mr. McKichan: The likelihood is that the level of employment in retail trade will not keep pace with the growth of the population because of automation and other factors that are affecting the trade. But as for the effect of enhanced trade on that as a plus or minus, it goes back to the welfare of the whole economy. It will grow more in a buoyant economy and less in a stagnant or declining economy, obviously.

One point I would make is that whereas in the recent past there was not much penetration of the US economy by Canadian retail firms, that position has changed quite substantially in the past 10 or 15 years. Now it is close to there being a balance between US ownership of the Canadian industry and Canadian ownership of the US industry. It looks as though some of our Canadian companies are poised to become quite important players in the US economy.

Mr. Cordiano: Would a free trade deal or enhanced trade give greater access to these firms that are seeking markets in the United States?

Mr. McKichan: Marginally, but there is not much impediment either way to the flow of business in retailing ownership between the two countries. We did a survey for our members on that recently, as a matter of fact, in particular of those who are now operating in the United States. They reported rather minor impediments to their investment there.

Mr. Knight: The nub of your presentation is that there would be a generation of wealth, a greater disposable personal income, as a result of perceived benefits derived from a free trade agreement. That seems to run contrary to what we have heard in the short run from other witnesses we have had before us. They suggested there would be an increase in the unemployment figure as far as Ontario is concerned. This could be caused by several factors, partly the relocation of industries, or the shutting down of branch plants perhaps, things that would tend to suggest there would be a decrease in actual disposable personal income on an aggregate basis for a period of time, in any event.

Do you have some figures that would dispute that? Are you

perhaps looking at some expectation that may very well be unreal?

Having asked those questions, I might suggest also that if there is a relocation of production facilities for efficiency purposes then the costs of some consumer goods may very well increase to the consumers in Ontario. It is not going to affect your industry whatsoever, because you are simply the providers of those consumer goods. In effect, we may actually lose.

Mr. McKichan: Our committee, in taking the position it did, relied on considerable assurances in the sense that we were aware the major horizontal business and, in particular, manufacturing associations such as the Canadian Manufacturers' Association and the Business Council on National Issues had concluded very strongly, after surveys of their members, that enhanced trade was in the interests of their manufacturing members.

The committee was further reassured by the findings of those macroeconomists who had studied the situation, such as the Economic Council of Canada and the C. D. Howe Institute, whose findings were that there would be an overall benefit for Canadian trade, although in all cases very frankly agreeing that--

Mr. Knight: Were those economists who come from Queen's University or the University of Western Ontario?

Mr. McKichan: Some of them. They were very frankly agreeing that for some sectors there would be some substantial adjustments and it would be necessary to take steps to facilitate that adjustment.

I was surprised at the very strong degree of support from the manufacturing sector generally in favour of enhanced trade. I am sure the witnesses you hear later in your hearings will bear that out.

10:40 a.m.

Mr. Chairman: All the witnesses we have heard so far, though, are saying they do not have very good information, and some are saying to us we should jump while the Americans are still receptive to us. I take it you are saying we should seriously investigate it, and even if the Americans turn sour in the next months, we should be investigating it to make certain where we stand. You have been very cautious in your submission.

Mr. McKichan: It is probably unrealistic to expect that this process is going to be sewn up and knotted in six months months or a year. I suspect the process, once initiated, is going to take a lot longer than that. However, it is important, once armed with all reasonable research we can get our hands on, that we initiate the process and see what the likely tradeoffs are. We are not going to know what they are until we start the process. We know every negotiation may fail, but we do not know what the risks are until we embark.

Mr. Doucet: There is a saying that if you put every economist in Canada end to end, they would not reach a conclusion;



this is one of the most obvious places where that is true, whether you are talking about the Ontario Economic Council data, which show a 10 per cent loss of employment in some areas and a 10 per cent rise in other areas, or those of C.D. Howe or any of these groups.

It is our hope, and I suppose it is the hope of everyone who is looking at this problem right now because of the time frame, that on September 5, or shortly thereafter, the Macdonald royal commission will produce some of the state-of-the-art analysis that will support what at least its chairman has been saying about this issue.

We cannot do the kind of analysis that dots every "i" and crosses every "t." With whatever that commission costs, we hope it produces some original research. Even if it does not produce all the answers, we are saying the fundamental approach to this issue should be one that is fresh, one that is not simply taking the traditional view about the fears for specific special-interest groups, although they have to be taken into account, and one that gets the ball rolling towards a certain objective.

As we negotiate, we may be dissatisfied with what the Americans come up with or with what we achieve in specific areas and we may back off, but we are saying we believe the ball should be set in motion for a negotiation to take place so we can see where the "i's" cannot be dotted and the "t's" cannot be crossed.

I do not think there is any specific economist who can come up with the answer to what is the actual net cost or benefit of this move; I do not think the Macdonald royal commission will either.

Mr. Chairman: I did not mean to push you over the edge, but now you are saying we should jump in any event, I take it.

Mr. McKichan: Our view is that, having armed ourselves with the best information we can and assuming that information bears out our preconception that it looks like it is going to be fruitful, we should start negotiating and at least find out what the price is.

Mr. McLean: I would like to ask you how you feel free trade would work with regard to the farming community--the red meats and the wheat that is piled up in the west. I would like your observations on the trade that would take place. We are having a problem now with the beef and pork coming in. What is going to happen to our Canadian farmers?

Mr. McKichan: I brought up the agricultural industry in my opening remarks as one of the special and probably difficult cases. It may or may not be possible to achieve accord on the whole agricultural industry, or it may be possible to achieve accord on some of it, but it may be possible to achieve an enhanced trade agreement, even isolating parts of it which both of the parties agree are too sensitive to deal with at this time. However, we do not know that until we start the negotiations.

Mr. McLean: When you look at the industry as a whole over the years, any commodity that has a marketing board or a controlled quota--for example, feather products and dairy products--has done very well; but the red meats and the hogs, which do not have any quotas or marketing boards, are in trouble. If you allow free trade, they are all going to be in trouble.

Mr. McKichan: I would not agree with your conclusion.

Mr. Taylor: Or even his premise.

Mr. McKichan: Not that either.

Mr. Doucet: The food and agricultural area is one in which I have spent most of my time, going back many years. I am not an expert, but I am interested in the examples you choose. Incidentally, the Retail Council of Canada is very supportive of the marketing board approach. Those marketing boards, such as the Canadian Wheat Board, which has been focusing on increasing sales abroad and consumption of wheat products, in our view have done very well.

With respect to the example of pork, I am quite concerned that what we have been exporting to the United States has been exposed to state decisions to cut it off in the last few months. Sugar-based food products have been faced with quotas in the last few months because of state-led charges. Those concern me as much as, if not more than, working effectively, as we do now, with the supply management marketing boards in the feather and dairy industries that have a track record you just described as being not too bad for those who have quotas and are involved in those particular marketing boards.

There are a number of areas. Red meat happens to be one in which I spent many years for the federal government and in a commission of inquiry. It concerns me greatly the traditional marketing relationships in North America have been skewed over the last few years and affected by pre-emptive strikes, if you like, both in the United States and because of actions in other countries. It is because of that kind of uncertainty I, as someone interested in the food system, would like to see more assurance that what we can and do export continues to be so. Particularly in the North American setting, we have a market for our red meat, not only for Alberta and Ontario vis-à-vis the United States, but intraprovincially, where it is so strongly affected by what some provincial governments do in supporting their industries.

Mr. Chairman: In view of your concern about a state decision with regard to countervailing activity and so forth, and the fact a federally negotiated agreement with this country may not bind a state or even Congress, do you have any evidence we can overcome this problem if we get into a free trade arrangement? Will they obey it? We heard yesterday an opinion to the effect they will not.

Mr. Doucet: I know without one they have not obeyed it. I understand in our history, when we had a treaty at one time, they abrogated it unilaterally after 12 years. You are absolutely

right. Canada and the United States are signatories to the General Agreement on Tariffs and Trade. Despite the GATT rules, how many occasions have there been when certain things happen and there is a squabble about whether they were justified?

My own view is, if we entered into some kind of formal blanket agreement that began to pull in the states with respect to their actions, that would be at least an effective lever in Congress or the White House which would allow it to oppose or influence that state's direction on that particular issue.

I am quite concerned for the food business in particular. There has been such uncertainty over the last few years about our ability to be very effective sellers of food products in the United States, we think because of the exchange rate.

Mr. McKichan: Just to answer that, I think the educational effect would be one of the side benefits, and by no means a negligible one, of an enhanced trade treaty. How many Americans recognize the significance of Canada, or even Ontario, as a market for US products? I am sure if you told the average American the single biggest customer was Ontario, he would drop dead with surprise. They would automatically assume it was Japan, and never mind Canada, but Ontario on its own.

Mr. Chairman: Are we taking about this as an attention-getting device?

Mr. McKichan: I would suggest that is a minor part of it, but not negligible.

10:50 a.m.

Mr. McFadden: I have a couple of areas I would like to address. I take it, with respect to the retail council, from your point of view the goal of your membership, at least, is to get goods to your customers, quality goods at the lowest possible price if you can do it. One of the areas that certainly has come up--I notice you mentioned it quite a bit--is nontariff institutional barriers. The retail business, at least the textile area in Canada, has been subject to one of the major nontariff barriers in terms of foreign suppliers.

With regard to textiles, have you any figures on what would happen if we were, for example, to remove the quotas with regard to US importation of clothing and other textiles? Would that be a significant amount or is most of the quota catching goods produced in the Pacific Rim?

Mr. McKichan: We have to divide the industry between primary textiles and clothing. In relation to the former, the United States is a significant source of textile products for further manufacturing in Canada, particularly in the area of household textiles: drapes, sheets, bedding and that sort of thing.

Mr. McFadden: Is that subject to quota now?

Mr. McKichan: Yes, it is. The United States is a rather



minor supplier of clothing, largely because of price differentials and the fact that the prices in the developing countries are so comparatively low. It is only the very small importation of high-value, top-of-the-line merchandise that comes in from the United States now, nor will that situation probably change.

But at the moment Canadian exports of clothing to the United States, which are small but important to some companies, are quite severely inhibited by one of these nontariff barriers, the ornamentation clause in the US tariff, which you must have heard about, I suspect, before now.

Mr. McFadden: I take it you do not have the economic staff to review all these figures.

Miss Stephenson: From what we heard yesterday, it may be just as well.

Mr. McFadden: I was thinking of the accounting staff just to count up things.

If, for example, we were to remove our quotas--let us say that was one of the areas that came under discussion--and in turn the Americans offered to remove theirs, have you any feel for what the net effect might be? It would be the Canadian manufacturers in particular.

Mr. McKichan: We suspect it would have a negative effect in the first instance on textile production but, keeping in view that by now many of the Canadian textile manufacturers are multinationals and that Canadian firms have plants in the United States and vice versa, I suspect it would be mostly one of inter-firm rationalization.

In the clothing industry, I suspect we may do rather better than the United States in the sense that more and more the mass market everywhere is breaking down; more and more we are seeing highly individualistic consumers buying highly individualistic types of product. Canadian plants, being quite small, are often better at adapting to targeting a niche in the market and being successful in that. I suspect our clothing manufacturers would probably benefit, but for that reason and because of their increased access to fabrics.

One of the clothing manufacturers' chief complaints now is the difficulty they have in being competitive because of, first, the higher cost of Canadian products and, second, their limitation in variety. So they have to operate with imported but relatively expensive raw material or fabric.

Mr. McFadden: Does the council have any view with regard to the service area? One thing I am curious about is the area of franchising. You mentioned franchising and you have also mentioned that service is a more and more important area, not only for the economy in terms of employment but also it is very clear on the basis of generation of international earnings that in the case of the United States it is becoming crucial. I gather something approaching 50 per cent of its international earnings may now be

coming from services, according to newspaper reports.

One area that has clearly been on the increase is franchising. Royalties and so on in that area are generating significant amounts of foreign earnings for American companies. Is franchising becoming much of an issue in the retail sector? I know there are no tariff barriers per se; there are no nontariff or any other barriers to franchising except where legislation has been brought in to control it, in Alberta, for example.

Is there any worry on the part of the retail council about that whole area of franchising and so on from the United States or elsewhere that may be in some way hurting the Canadian retail business or Canadian-owned companies, or is that not very much of a concern?

Mr. McKichan: One of the curious phenomena which has become clear over the last 20 years or so is how very difficult it is even for an experienced, sophisticated company to move a retailing operation across cultures. One can think of some firms which have recently entered the Canadian market from the United Kingdom, for instance, where the companies concerned have been large, extremely successful, experienced retailers, but it has taken them a long time to operate successfully in the Canadian market.

Even between the United States and Canada the same phenomenon has often occurred. A style of retailing which is successful in one country does not automatically succeed in the other. In this area I suspect the likelihood is that Canadian businesses will probably do at least proportionately as well as US companies. We are seeing more and more Canadian retail enterprises operating in the United States, some of them on a franchise basis. I would think in that area we are likely at least to hold our own.

Mr. McFadden: Would your organization represent any of the fast food chains?

Mr. McKichan: No. We do not represent the restaurant or fast food sector.

Mr. McFadden: It is a totally separate group.

Mr. McKichan: Yes. The Canadian Restaurant and Hospitality Association is their natural home.

Mr. McFadden: I guess they are more concerned with franchising.

Mr. McKichan: We have a lot of franchising in our business. In any area where there is not a great deal of product differentiation, franchising is liable to become very successful. One thinks of the grocery, automotive, hardware and drug trades. In all these areas franchising is extremely important. In some of these areas the Canadian operation has very successfully moved down into the United States.

Mr. McFadden: Except for White's in Texas.

Mr. McKichan: That is perhaps not the happiest one.

Mr. Chairman: There are others.

Mr. McKichan: That is an example of the former phenomenon I was describing, the difficulty of moving a concept across the border.

Mr. McFadden: Under a free trade agreement, to use a manufacturing term, what would happen to the Canadian content as far as most retail businesses are concerned? I am thinking of the potential pressures that would be exerted by larger American suppliers under a free trade agreement to direct the mix of goods that you would have within your members as storage for sale more towards buying North American as opposed to a buy-Canadian and perhaps even a buy-US movement. What kind of a subtle, negative effect would that have on our domestic manufacturing industry?

11 a.m.

Mr. McKichan: Rather than talking in generalities, it is perhaps informative to look at the major individual sectors. To look at the furniture area, for example, at the moment there is a significant but not huge importation of US merchandise. The chief barrier to importation of the US product is probably the transportation cost. That factor is going to remain constant. I would suspect there would be some increase because of the reduction in tariff, but who knows whether that might not be compensated for by Canadian exports to the US. We are already big exporters of office furniture and some of the better-quality household furniture.

In clothing, I do not think the US relationship would have a tremendous significance for Canadian clothing sales. The chief competition to our manufacturers will still come from the developing countries, particularly the Far East. Housewares is probably the area of the greatest US penetration and it is often because these are large-scale-production products. We have difficulty providing the market scale to compete in Canada. We might redress some of that situation.

In products such as sporting goods, the chief competition is not from the United States; it is from Third World, developing nation sources. Foodstuffs is the most intricate of the areas because it is tied up with agricultural policy. I would be reasonably optimistic that we would be able--in many cases, the decision would be made by the multinationals themselves--to seek and negotiate for a regional market for the Canadian production units.

Mr. Knight: With those products where we do compete with the US, forgetting the ones where our chief competition is offshore, there certainly would be the pressures coming under a free trade agreement from the US to sell goods manufactured in the US rather than here.

Mr. McKichan: It would not be so much a push influence as a pull influence in the sense that if value were better,



competition would cause the Canadian customer to look at the US source. I would be reasonably hopeful that in many cases our Canadian manufacturers, with the opportunity to have access to the US market and to both specialize and increase their scale in specialization, would do at least as well, perhaps better.

One area we did not touch on is the electrical appliance area. As you know, in major appliances we are basically self-sufficient in Canada. I understand the appliance manufacturers have not quite made up their minds whether they would win or lose in that situation. In the small-appliance area, we are less self-sufficient. That is an area where we have some room to improve our position. You cannot buy an American-made electric kettle in the United States.

Mr. Knight: Simply because they do not use them, I understand.

Mr. McKichan: They have never thought of using them.

Mr. McLean: I would like to know if you feel Canadians are as sharp business people as the Americans.

Mr. McKichan: Some are and some are not. The success of some of our own multinationals would belie any sense that we need be second to anyone.

Mr. McLean: That is the question you ask in your brief. I was curious if you had an observation you might like to make to us to try to imprint some of the ideas you have.

Part of the brief said supply management marketing boards have, for example, "raised prices in Canada and undermined its potential export opportunity for certain food products." I would like to know if you feel the marketing boards have caused the people of Ontario and Canada to not be able to export their products as they would under free trade with no marketing boards. The indication you give us is that because of the marketing boards we cannot export our products.

Mr. Doucet: I will have a try at that. The vast majority of marketing boards in Canada do not fix prices or set production quotas. Many are major marketers of products even at the international level and have been very successful at that. For example, there are British Columbia apples. The Ontario Flue-Cured Tobacco Growers' Marketing Board has a great record in marketing its tobacco abroad, although tobacco is under siege right now. There is the Canadian Wheat Board and so on.

The few we have that are of a supply management/marketing board nature have come under special scrutiny by all parts of the food system, including retailers, because of the overall cost to the economy of the way they operate. In the instances related to poultry and dairy, our judgement is that certain export opportunities have been lost, particularly with regard to the Canadian Dairy Commission and its operations for industrial milk. There are types of milk and butter products we might have been able to develop.

Denmark has ingenuously got around our quota on industrial milk over the years by creating all kinds of food products with butter in them, such as the cookies we all eat. They come into Canada for sale by the ton. There has been that kind of development. Even with respect to the feather industry, my own view is that some of the trade that might have occurred interprovincially has been discouraged by the carving up of our national market into specific provincial quotas or market share quotas by province. As a result, the overall benefits for all producers of chickens or whatever have been lower. We have seen instances in Ontario of people who want to produce and sell chickens who cannot sell chickens because there is a quota mechanism and they cannot get quotas.

I also point to the value of that quota. My judgement is that we have probably lost markets because of the way that system is operated. None the less, as the Retail Council of Canada, we are on the consultative committees for chickens and turkeys. We are finding that they are operating much more effectively than they did at the beginning. They had growing pains. We are working with them in the advisory consultative committees.

We think the view of not just the producer, but also that of the manufacturer and the retailer, is being taken more and more into account. We are not an association that stands up and says, "Get rid of them." We are an association that stands up and says, "There have been opportunities lost in markets within Canada, but also abroad, because of their focus on production as opposed to marketing and consumption."

Mr. McLean: I have to disagree totally with you. Having been in the industry for some 40 years, I know what it is like from the producing side and what it is like to have quotas and controls to protect the industry. Hogs and beef are the only ones that do not have controls and you know what is happening across the country with farmers who are in that industry. They simply are not making money. They are going bankrupt and are losing their operations.

You cannot have it both ways. You cannot have controls and exports at the same time in order to fulfil the commitments you want with regard to your products. I have to believe that when you go into the store and buy beef, you do not see the price for that. When the farmers send their animals to market, they may take 10 or 15 cents less, but you do not see it go down in the stores. I have a problem with that.

Miss Stephenson: Surely one of the things the retail council is saying is that they are not mutually exclusive, but that there are ways in which you can develop the capacity for export within the supply management/production mechanism that will ensure there is protection of the kind that is appropriate for the producers. The kind of market opportunity that is necessary for Canadians and for the producers can be expanded as well. I think that is what you are really saying.

Mr. McKichan: I wish I could have phrased our answer in that way.

Mr. Doucet: You said it shorter too.

11:10 a.m.

Mr. Chairman: I wonder whether we can turn to the subject of retail sales taxes. I presume your organization, generally speaking, does not like them and would like to have them reduced.

Mr. McKichan: You are correct in your assumption, Mr. Chairman. We prefer other types of taxes, particularly taxes on income rather than taxes on commodities. We recognize the tax structure is full of compromises and it is unlikely that it will be possible to eliminate taxes on commodities. So our secondary position is that, once you have a tax, it is our belief it should be spread as widely as possible. In other words, the more you attempt to fine-tune it to include or exclude particular commodities, the more distortions you create and the more difficulty you have achieving any degree of evenhandedness.

Mr. Chairman: It strikes me that in attempting to police a free trade arrangement any adjustment to that tax by any state or province or federal government will possibly to be considered a nontariff barrier of some sort. Have you considered that?

Mr. McKichan: I would not think so, with respect, in the sense that if the tax applies evenhandedly on products, whatever their source, it is difficult to argue that it creates a bias.

Mr. Chairman: If the state of New York, and I do not know whether they have one or not--

Miss Stephenson: Sales tax? They sure do.

Mr. Chairman: Do they? All right.

Miss Stephenson: They also have city sales taxes included in it.

Mr. Chairman: That is right. It is higher than ours. That may benefit us. If they suddenly cut out those taxes, would not the retailers in Ontario be concerned?

Mr. McKichan: I am not quite sure how this would arise. Are you thinking of customers moving from one jurisdiction to another to shop? That is not a very significant problem at the moment, at least for Canadians while the value of our dollar is so significantly less.

Even when our dollar is at par, generally speaking, it is only a significant problem where there are two cities facing each other across the border. The costs of transportation and so on usually tend to even out the cost advantage.



I revert to my position that if the tax is applied on all products, you cannot really argue that there is discrimination.

Miss Stephenson: When you say it should be tied to all products evenly, you are suggesting that the same tax structure should be used for those goods which are imports as those which are produced domestically?

Mr. McKichan: Yes.

Miss Stephenson: You are not suggesting that, for example, Ontario should move to taxing foodstuffs or children's clothing or something of that sort?

Mr. McKichan: No. I am simply saying as long as you tax everything by the same set of criteria.

Mr. Chairman: Are there any other questions?

I want to thank you very much for coming this morning. Your presentation has been helpful and your brief has been well prepared. I think we have learned something from your perspective, and you may see the results of it some day.

Mr. McKichan: Thank you very much for your thoughtful hearing.

#### COMMUNIST PARTY OF CANADA

Mr. Chairman: Members of the committee, I see by the Canadian Press report that sometimes our deliberations are turgid. That may not be the case with the next organization we are going to hear from. It is the Communist Party of Canada. We have with us Gordon Massie, the Ontario leader, and John MacLennan, the Ontario organizer.

Perhaps you would identify yourselves, sir. Do you mind if we interrupt during your presentation?

Mr. Massie: Go ahead.

I am Gordon Massie, the Ontario leader of the Communist Party of Canada. This is John MacLennan, the Ontario organizer.

The brief we wish to present to you today was one we originally prepared for the joint committee hearings of the federal government, but we were denied the opportunity to present it at those committee hearings. We would like to thank you, Mr. Chairman and members of the committee, for the opportunity to present our brief today.

I do not know what the time frame is, whether I should read out the whole brief or just parts of it. Perhaps you could give me some guidance in that regard.

Mr. Chairman: I will leave that up to you, bearing in mind we all have copies of it. You may impress us more if you highlight the areas you want us to be aware of.

Mr. Massie: It is quite a short brief. It is mainly highlights, but it also offers an alternative to the proposals for free trade. I will read parts of it and then we can get into questions. If you have any questions during the time I am reading, feel free to ask.

The struggle over the direction Canada should take, towards complete subordination to US imperialism or the path of Canadian independence, will sharpen in the days ahead and has become a major political issue.

Free trade with the US is being supported by a growing number of monopoly interests in Canada in an effort to get themselves out of the crisis. They see no perspective for Canada other than the US market and are prepared in return to subordinate the interests of Canada to active support for US foreign policies.

At the summit meeting in Quebec the door was opened to free trade by the reduction of tariffs and other trade barriers. This sharp turn reflects the fact that the dominant sections of Canadian monopoly have opted for a policy of continentalism. Canadianization is being replaced by Americanization. What is taking place is the economic and military integration of Canada into the US empire.

This reorientation of direction mirrors the growing crisis of Canadian capitalism in a shrinking world capitalist system. The Conservative Party, which authored a national policy for Canada, has now become the pro-US party in Canada.

The government and monopoly interests see orienting on the US market as the only way out of the crisis. The third option of Mr. Trudeau has not worked. The turn to the Pacific Rim countries faces sharp competition with the US and Japan. This view is shared by people like Mr. Macdonald, head of the Royal Commission on Economic Union and Development Prospects for Canada, who sees free trade as the solution to the ills facing capitalism.

The advocates of free trade try to sell it as the path to jobs and rising standards, but this is untrue. The end result of free trade, or sectoral free trade, would be the loss of the economic and political independence of Canada. Free trade with the United States, once entered into, will be a hard path to reverse. Canadian dependence on the US market in a free trade situation will be infinitely greater than US dependence on the Canadian market.

Herein lies the greater threat to political sovereignty. Sooner or later Canada would be absorbed into the United States as just another US state; nor would the proposed North American common market, embracing the US, Canada and Mexico, be any different. It would further orient Canada to being a producer of raw materials for the US and lead to the loss of Canadian independence.

This reorientation of Canada towards integration with the USA comes not when US imperialism is in the ascendancy, but when, historically, it is in decline. The partnership has no solid foundation and is doomed to failure.

Free or freer trade with a highly unstable US economy which is facing a downturn could result in disaster for Canada. It would curtail Canada's independence and destroy entire industries, thereby adding to already high unemployment. A sharp turn to the US will undermine Canada's ability to develop its own industrial policies. Foreign ownership, as we have seen, limits trade as well as research and development.

One of the immediate consequences of free trade would be the closing down of US branch plants in Canada. Many of these plants were established here in the first place to get under tariff barriers and to produce for the Canadian market. Once the tariff barriers are removed, the reason for the existence of these plants disappears. The US parent corporations could supply the Canadian market from their US operations with lower operating costs.

A second consequence would be that the Canadian market would be flooded immediately with cheaper goods from the US, driving Canadian manufacturing plants out of business. The result of both these developments would be the loss of literally hundreds of thousands of Canadian manufacturing jobs in such industries as furniture manufacturing, shoemaking, textile and electrical goods.

11:20 a.m.

All of this would be accomplished with the promise of low consumer prices, but once the Canadian producers are out of business and the transnationals have the market sewn up, they would raise the prices to all that the traffic could bear.

Even the supporters of free trade admit to some of the problems that would result.

"Free trade arrangements would result in dislocations in some industries," states Mr. Donald Macdonald.

"A policy of free trade would mean the loss of jobs for Canadians," the Fraser Institute agrees, but this is of no great concern because the main losers would be "protected factory owners and well-paid, highly-unionized workers."

Not only will many Canadian companies be put out of business, others will decide it is more profitable to move their operations to the United States. "Even now they have a strong reason to locate in the US," says Thomas A'Quino, head of the Business Council on National Issues.

There are other far-reaching changes that would come with free trade. The idea of free trade is based on the principle that competing companies in the two countries are on an equal footing with neither group enjoying special privileges which give it an advantage. This means that many of the laws and business practices



of the two countries would have to be changed to be in line with each other.

It is not hard to predict which country, Canada or the United States, would change to meet the standards of the other. The United States, with its manufacturing and military might and a population 10 times greater than ours, is not about to change its business practice for the purpose of accommodating us. Canada would be forced to change its practices and institutions. This would mean "a fundamental shift in philosophy of the government and economy" of Canada.

In the United States, for example, natural resources are privately owned. They are state owned, as in Canada, and then leased or licensed to the private sector to exploit. Free trade "could lead to the private ownership of Canadian forests." That is from a Globe and Mail article by Jennifer Lemington. The same principle would apply to minerals, oil, fish and water.

Free trade would "make it virtually impossible to have a tax system in Canada different from that of the United States. Even without free trade, there is tremendous pressure on Ottawa to bring its tax system in line with that of the United States."

Since the United States does not have medicare, our medicare system could also be under attack in a free trade agreement. So, too, would labour legislation governing hours of work, holidays with pay, minimum wages and the right to organize be challenged by a free trade arrangement. Environmental protection laws would be reduced to a low level of protection as in the United States under the Reagan administration.

Canadian culture, always under pressure from the United States, would be further undermined. "It would be difficult for Canada to maintain cultural barriers such as those discriminating against US television and US magazines."

In short, free trade would mean the loss not only of whatever economic independence we have left, it would also completely undermine our national independence and national sovereignty.

Closer integration with the United States is advocated by right-wing businessmen who argue that free trade with the United States will hurt some Canadian industries but will help others by opening up the huge US market to surviving Canadian industries. It glosses over the fact that Canada has been, and is, suffering dire economic and political consequences for its existing high degree of integration and dependence on the US economy.

To integrate more closely with the United States would be to worsen the problems and structural distortions which this integration has brought so far. There can be no doubt that in any competition between Canada and United States firms over the same market, the US will have the skill and financial resources to win. It is no accident that the advocates of closer integration invariably express right-wing views in other areas, including social and foreign policy.

Is there no alternative to the pro-US course taken by the Mulroney government? Yes, there is an alternative: independent economic development based on nationalization under democratic control. Yes, there is an alternative to free trade: multilateral and bilateral trade with all countries based on mutual interests.

From there, the brief goes on to outline some of the proposals we made in our submission to the Macdonald commission.

I would like to move to page 9. Previous to page 9 we show that three options have been considered and tried but none was viable. To this we add an option of our own, and you will see our option starting at the middle of page 9.

Our option, however, rejects big business as a vehicle for change in Canada, makes the needs of Canada and world peace its starting point and proposes measures that will get at the root causes of Canada's problems. These measures must include:

1. Nationalization under democratic control of Canada's natural resources and the creation and expansion of state-owned secondary industries that will process and manufacture Canada's vast wealth in raw materials in Canada.

2. Nationalization under democratic control of all transnationals, the banks and other financial institutions.

3. Stopping the export of capital, whether Canadian or US.

4. Foreign exchange controls and any other measures that may be necessary to counter foreign, especially US, retaliation.

The form of the nationalization and the amount of compensation to be given to the previous owners would depend on the specific circumstances of each individual case. In any case, these measures can bear fruit only if they are resolutely and rigorously implemented no matter what the opposition from big business at home or abroad.

The establishment and expansion of state-owned industries on the basis of a nationalized natural resources sector would serve three main purposes. First, it would create tens of thousands of jobs for Canadians and would go a long way to putting an end to a situation where Canada is exporting jobs to the United States.

Second, in conjunction with this program it would also be necessary to develop a Canadian publicly owned auto industry, particularly in view of the fact that about half of Canada's trade in manufactured goods consists of motor vehicles and parts. The same applies to the development of a machine tool industry in Canada. If countries as small as Sweden can develop their own auto machine industries, then Canada, which has a larger market and a greater need for autos, can do so as well.

Third, the repatriation of profits and dividends would be a major step in halting the outflow of capital from Canada and redressing Canada's balance of international payments problems.



The nationalization of transnational corporations in Canada is a necessary part of the development of an independent Canadian manufacturing sector. Currently the transnationals enjoy enormous economic and political power and have the ability to undermine the economies and sovereignty of individual countries, including Canada. They can close down plants and move them to other countries. They control huge amounts of currency and use them to speculate on national currencies, usually at the expense of the countries concerned.

They make their corporate decisions on the basis of their profitability and not on the basis of the national interests of their host countries or the peoples of these countries. In fact, they have the power to disrupt national economies, as happened in Chile just before the overthrow of the Allende government.

The nationalization of the transnationals would keep Canadian-produced wealth in Canada and greatly strengthen Canada's ability to control its own economy and develop it in accordance with the needs of Canada and its people.

The nationalization of the banks and other financial institutions would put enormous financial resources at the disposal of the state and of Canadian society as a whole. This is an indispensable condition for any government dedicated to securing genuine Canadian independence and meeting the needs of Canada's people.

A publicly owned financial sector would enable the government to channel investment into more productive industries, specifically into rebuilding Canada's manufacturing sector. It would give governments much more money to support socially needed and useful projects, such as a comprehensive and universal state-supported health care system, a universally accessible education system and a program for affordable nonprofit housing. This means putting an end to the present policy of cutbacks on people's needs on all fronts.

11:30 a.m.

The huge profits that the privately owned banks and financial institutions are now obtaining could also be used to overcome budget deficits and pay off Canada's international obligations. Public ownership of all financial institutions would make it possible for Canada to pursue more independent monetary and interest policies; for example, making mortgages and consumer loans available to working people at much lower rates. This in turn would stimulate economic growth and so create jobs.

Public ownership of financial institutions, transnational corporations, natural resources and rebuilding the manufacturing sector on the basis of public ownership would go a long way to stemming the outflow of capital from Canada to foreign private interests. It will be recalled that in 1981 there was an outflow of direct foreign investment in the amount of \$5.3 billion, while another \$4.9 billion net was paid out to foreigners in the form of interest and dividends, and \$6.2 billion net went to foreigners mostly as service payments, producing a total net outflow of \$23.4 billion.



Repatriation of this capital would sharply reduce the need to attract other forms of long-term investment, especially in the form of portfolio investment, as well as reduce the need to borrow funds from abroad to meet the public debt. The achievement of the latter measure would be a major contribution to reducing inflation and would be done even as government expenditures expand.

Reorganization of the Canadian economy on an antimonopoly, pro-people basis, on the basis of public ownership under democratic control of key sectors of the economy, means jobs and higher living standards on the one hand and vastly increased revenues for all three levels of government and the people, rather than seeing it go into the pockets of big businessmen.

Democratic control means the direct participation of working people in running the economy and formulating economic policy. It means the nationalized sectors would be used to satisfy the needs of the people and strengthen Canadian independence.

I would conclude by stating that although free trade is a major question for the country as a whole and its future, Ontario stands to lose most from any free trade agreement reached with the United States.

Mr. Chairman: Thank you. I take it, in a nutshell, you are saying any agreement would mean benefits all would go one way.

Mr. Massie: The major benefits would be to the United States.

Mr. Taylor: Mr. Chairman, the last delegation was the Retail Council of Canada and you inquired about its membership so we could have some focus on who was speaking or being represented.

I am wondering if we could similarly determine the focus and strength of this delegation's representation. The submission is that of the central executive committee of the Communist Party of Canada. Frankly, I am not a student of that group, so I do not have a clear understanding of its composition and membership. I would like to better determine whether they are representatives of a large audience or a small group.

Mr. Massie: First, I would like to say the Communist Party is almost 65 years old in Canada. It is a registered political party meeting all the requirements other political parties meet. We have more than 5,000 members in Canada. In Ontario we have almost 3,000, the vast majority of whom are working men and women.

Mr. Taylor: When you put together a brief, how is it vetted so it represents a consensus of your membership?

Mr. Massie: The starting point for this brief is a set of documents that were adopted in April 1985 by our national convention, which was a delegated convention at which every party organization throughout the country was represented.

Mr. Taylor: Are certain policies formulated or developed and propounded at a convention?

Mr. Massie: Yes; then they are adopted and become binding on the elected committees.

Mr. Taylor: And they are manifested in submissions such as this?

Mr. Massie: Yes.

Mr. Taylor: I am sorry the New Democratic Party members are not here. Their party is different from some others, I understand, in that if resolutions put on the floor are adopted by their convention, they become part of their party policy, more so than policy that may be developed in caucus or by the leadership in other parties. Do you have a similar modus operandi?

Mr. Massie: Similar to a certain degree. We adopt policy at convention, but the convention policy of the NDP is not binding on caucus, whereas the Communist Party's convention policy is binding on all its committees elected at that convention.

Mr. Taylor: I guess you would say it is more democratic in that sense.

Mr. Massie: Yes.

Mr. Taylor: In your brief, you advocate the nationalization of the resource industry, which is one of the NDP resolutions as well. I am not trying to establish a relationship between the two parties. It is not only the resource industry. In each parliamentary session for some years, in my own personal experience, a bill to nationalize Inco has been introduced by Elie Martel, who is the NDP member for Sudbury. There is jesting that instead of calling it Inco they would call it Pinco.

Miss Stephenson: And Elie was going to be president.

Mr. Taylor: Elie Martel would be the president. There is some similarity in the basic philosophy of nationalizing resource ownership and that of heavy industry, such as the mining industry.

Mr. Massie: Our approach to nationalization is that you cannot have rationally organized production in Canada on the basis of privately owned industry. That is why we continue to get this boom and bust cycle that has been with us ever since the capitalist system existed. If the NDP has similar policies to ours, I believe that reflects the fact that it also has a large influence among working people. It is working people they are pushing with these policies of nationalization.

Miss Stephenson: What do you call that cycle in Russia?

Mr. Massie: They do not have that cycle in Russia.

Miss Stephenson: Come off it.

Mr. Cordiano: They do not report it in Russia.

Miss Stephenson: You know as well as I do--

Mr. Massie: I do not want to get into a philosophical argument about Russia. Let us talk about Canada. If you want to talk about Russia, why not talk about trade with Canada?

Miss Stephenson: What would those cycles be called in China or in other countries in which there is a philosophical base similar to that which you are proposing? There is not a continual progressive enhancement of the economic cycle in those countries.

Mr. Massie: In the developed socialist countries such as the Soviet Union, which you call Russia, there is a constant ascendancy of production. The percentage is different from year to year, but it always goes up. You could look at your own figures some time.

Interjections.

Mr. Massie: We are getting away from the argument.

11:40 a.m.

Mr. MacLennan: I have one point. The relationships of production are different in the sense that there is not an antagonistic relationship between the workers and the owners of the means of production in the Soviet Union, as there is here. We see it every day. Whether there is a Communist Party or whether there is a labour movement, that contradiction would be here because workers would be organizing against the problems of that system of exploitation.

I am bloody curious. You raised this point about the NDP not being here. That is a very subtle form of Red-baiting, trying to identify us with the NDP in the sense that we have similar policies. That is not the nicest thing to do, especially when they are not here.

The other part is that we have membership. We do not allow people to sign up just before a convention like some political parties. We go through a whole process. We have a three-month preconvention discussion on the question of what the program is going to be and everybody has a policy and has some input. Then it is finally adopted and binding on everyone. We feel we have a more democratic process than any political party in Canada. We will stand it against anyone's.

I could bring to you, if you would like one, a copy of the last resolution we adopted. I would be quite willing to bring that. You will see that this brief follows their minds completely. I will make sure you get one if you want it.

Mr. Chairman: In any event, the answer to Mr. Taylor's question is that you are bound by resolutions.

Mr. MacLennan: Yes.

Mr. Chairman: Mr. Taylor, it is unfortunate the NDP members are not here, but they have good reason not to be. It is my understanding that they too are bound by resolutions. I am



thinking of Mr. Lewis's problem during the course of the 1977 election campaign when he found himself bound by the minimum wage resolution.

Ms. E. J. Smith: So are we all to some extent.

Mr. Maclellan: And nationalization.

Mr. Taylor: I do not want to get into that type of discussion. The reason I asked the question was to assess the strength of your presentation. You are representing 3,000 people in Ontario; it is an Ontario committee. Three thousand people is a considerable membership.

Mr. Massie: That is membership.

Mr. Taylor: I was interested in how you arrive at your conclusions and how it came to your conventions and the binding nature of the resolutions of your convention. The brief truly represents a consensus of your membership. That is what I was getting at and what I am interested in. I am not Red-baiting, if there was any reference to Red-baiting.

That was one area. The other area is with respect to nationalization, which I bring up because it is in your brief. You see that as an important posture that the province or presumably the country should take. There are parallel positions on that, probably not as broad as yours. In your brief, you have brought in the whole area of foreign exchange controls.

You express a concern with respect to Canadian dependency on the United States. At least that is the way I perceive your concern. I am very mindful that probably 80 or 90 per cent of our manufactured goods today are sold to the United States. It is our market now. I wonder what you see as the fallout if we introduced foreign exchange controls to protect, say, the flight of capital from Canada. How do you perceive the reaction of other countries in retaliation, principally our main trading partner on which we are so dependent today?

Mr. Massie: You are quite right in what you said; we are so dependent today. It is that one-sided dependency we have to overcome. We are under no illusion that there will be some form of retaliation by the United States, but we believe you have to have the political will to fight that.

We are not against trade with the United States per se. All we are saying is that we should not have all our eggs in the one basket. There are other countries throughout the world with which we should develop mutually advantageous trading relationships, such as the stable markets in the socialist countries and the developing countries. Half-hearted efforts have been made in that direction in the past with Mr. Trudeau's third option.

Mr. Taylor: Yes.

Mr. Massie: There was not sufficient energy or political will put into that diversification of Canada's trade relations. We

say we should not have an overwhelming dependency on trade with the United States.

Mr. Taylor: You are promoting more of the third option concept than the development of other markets?

Mr. Massie: We are proposing mutually advantageous trade with all countries and not one-sided dependency on the US.

Mr. Taylor: There has been a concern expressed by some people about international competitiveness. If you are trading in the world marketplace, there is a need to be competitive on price, quality and delivery. At the same time, there has been a concern expressed in some briefs--and I believe by the Ontario Federation of Labour and probably the auto workers--in that we should not be too concerned about that issue of competitiveness because that is often interpreted as meaning we then would have to reduce wages to substandard amounts in order to compete and also wipe out some of the social programs we now have. So we should end up with a poor social service system and lower wages if we focused too much on our competitiveness.

Do you have an observation in regard to that, bearing in mind that these are very real problems considering wages in Third World countries?

Mr. Massie: We think the whole issue of competitiveness is overblown. Studies were done by the labour movement--and I think there was a booklet put out by the United Auto Workers on the argument of productivity and competitiveness--which proved that Canadian workers in general are as competitive as most workers throughout the world and, second, the quality of the goods produced in Canada is as good as anywhere else.

Also, you would have to have another look at what you mean by competitiveness because, given the domination of transnational corporations throughout the world, what you find is a competitiveness within their own organizations here, so they are able to play around with their arguments. They are competing against themselves in some--

Miss Stephenson: Give me an example.

Mr. Massie: General Motors.

Mr. MacLennan: Chrysler in Korea.

Mr. Massie: Korea.

Mr. MacLennan: The new point that comes in here is it is a product of the technology exported by the transnationals, Chrysler, in conjunction with the state there. If you put it on the question of wages, Canadian workers could not compete with Korean workers. That was a determination, so we cannot afford to get into that kind of competition.

Miss Stephenson: That is the sale of technology rather than competition within a company.

Mr. Massie: Controlled by Chrysler.

Mr. MacLennan: Control is by Chrysler.

Miss Stephenson: Do you mean Hyundai is controlled by Chrysler?

Mr. Massie: It is jointly controlled. It is an agreement they have between themselves.

Miss Stephenson: They have a technology transfer, then.

Mr. Massie: It eliminates or reduces competition. Again, it reduces competition and increases their monopoly.

Interjection.

Miss Stephenson: That is not what Chrysler Corp. is saying about the importation of Hyundai automobiles into Canada. They are saying there is unfair competition within Canada as a result of that, but you are telling me that Chrysler--

Mr. MacLennan: That is Chrysler Canada talking about the competition in Canada, not Chrysler Korea, Chrysler USA, Chrysler Britain, Chrysler Germany or other places. There is a certain amount of barking up a tree here. It is correct that all of the Canadian companies are in agreement with Canadian content, yet when it comes to the Canadian content of Japanese or Korean cars, it is another question. It is not in their interest. It is the same thing with--

Mr. Chairman: You are suggesting these various Chrysler companies do not have similar interests?

11:50 a.m.

Mr. Massie: They have similar interests. It is how they declare their interests. Within that corporation's world-scale production, it can move things around in any country it wants until it is getting a better deal, no matter which way it goes. It is precisely their own self-interest they are looking at, and it is precisely this whole idea of getting Canadian workers competing against workers in other countries. We do not support low wages in Korea. We do not think there should be sweatshops in Korea the way there used to be in Canada.

Mr. Chairman: There are not any in Canada now. Do you agree?

Mr. Massie: No. There are quite a few in Canada right now in the nonunion sector.

Mr. Knight: Mr. Massie, I found your presentation quite interesting and I have to say that after the first page, where I saw a few proprietary phrases as such, I was pleasantly surprised when I got into the sections where you indicate the effects of free trade with the US. I thought it was a well-presented indication of the potential scenarios.



When you got to your particular option, though, I found it most interesting because although the witnesses we have had to date have made a variety of suggestions about where we should be headed in the future in discussions with the US--we have had the status quo argument; we have had total free trade discussions to be initiated at the outset; we have had sectoral approaches; we have had, "Put on the brakes and let us talk about it later"--yours is the first, if I may indicate what I see as the results of your option, to suggest that we actually end up with a hostile relationship with the United States. I see that as the only result of your suggestion regarding the nationalization of industries that in a lot of cases have US investment involved and US interests involved.

I would be the last to agree with any particular strong pro-US relationship, but certainly I can see a lot of problems and ramifications coming out of a hostile relationship with the US. Do you see that as a problem?

Mr. Massie: I think your starting point here is what is in the interests of Canada as a country and what is in the interests of Canada's people. In any negotiations with US corporations, they are going to put their interests first. We say we have to put Canada's interests and the Canadian people's interests first.

There are going to be repercussions; nobody is denying that. But either we are going to stand up and fight for the interests of our country and its people or we are not. We are not promoting a hostile attitude towards the American people. American working people's interests are the same as ours.

Mr. Knight: My perception is different from yours.

Mr. Massie: Talk about nationalization. Quite true, it means that some American companies will be nationalized in Canada. It also means that the banks which are Canadian-owned will be nationalized in Canada. So it is not just a narrow, hostile attitude towards some geographical entity south of us. What we are talking about is what is in the interests of the working people of Canada, and we think public ownership of the key sectors of the economy is necessary in order to meet the interests and needs of the country and the people. We are not looking for a more hostile attitude, but we do have the political will.

Mr. Knight: There is no question that it is an interesting option for this committee to entertain.

Mr. Cordiano: When you say "nationalization" you are referring to the government taking over the operation of these industries, these sectors. Is that correct?

Mr. Massie: State control but under democratic control. Ontario Hydro is state control; it is Ontario control.

Mr. Cordiano: I just wanted to make a distinction between nationalization in the sense that it would constitute Canadian ownership of the majority of Canadian-owned shares in a

company as opposed to nationalization, what they are referring to as state control. I wanted to clarify that point.

Mr. McFadden: I have three points for clarification. They are all related to the statements on page 10. You say if we were to nationalize the natural resources sector, we would create tens of thousands of jobs.

Often we find a lack of statistics and people do not really know. Figures are thrown around as to how many jobs might be created or lost if we had free trade or did not, and so forth. This figure indicates we could create tens of thousands of jobs. Do you have any statistical basis for that claim or is it a supposition, if we were to nationalize, some markets would suddenly open up for us? On what basis would these jobs be created?

Mr. Massie: Let us say it is a logical supposition. I do not have the actual figures at my fingertips. If we nationalize natural resources and process them into finished products in Canada rather than shipping them abroad, it is logical that would create jobs. If we used natural resources to diversify and develop further the secondary manufacturing industry in Canada, the logical supposition is it would create jobs.

For instance in Ontario, the main manufacturing province in the country, where manufacturing is heavily machine tool oriented, we do not have a machine tool industry in Ontario. If we use the natural resources as a basis to build one, the logical supposition is it would create thousands of jobs.

Mr. McFadden: What do you refer to as natural resources: the forest products industry right through to mining, oil and gas, everything that comes out of the land?

Mr. Massie: Yes, and grain.

Mr. McFadden: Are you including farms?

Mr. Massie: We do not want to nationalize farms. We are talking about grains with respect to the food processing industry. We have such an industry in Canada but it is deteriorating.

We are talking about iron, iron ore, the mining industry, which could be used as a basis for producing all kinds of finished goods in Canada. With respect to the forestry industry, instead of shipping all our lumber, why do we not build more furniture in Canada? We have some such industries but we have all kinds of scope for further development.

Mr. McFadden: To whom would we sell these products? If we were to produce them all in Canada, are you anticipating the domestic market would absorb it all or do you mean we would then find export markets?

Mr. Massie: An expanded domestic market could absorb most of it. By that we mean increasing the purchasing power of working people so they could buy the goods produced in Canada.

Mr. McFadden: I see. I will go on to a couple of other things. You mention the car industry and that countries as small as Sweden can develop their own auto machine industry. Are you talking about an automobile industry or are you talking about machine tool only?

Mr. Massie: Automobile. Mr. MacLennan is secretary of our automobile commission in the party.

Mr. McFadden: I would like to follow this through. Canada has a larger market and a greater need for autos, but my impression of the market with regard to Swedish-produced cars is that the only way they survive is through exports, it is not based on Sweden. Most other countries, Germany, France, Great Britain, the United States, Korea and Japan have build strong automotive sectors based on the export market, not on the basis of their domestic market alone.

12 noon

If we were to develop a relationship with the United States that essentially became quite hostile, since the market is very large and adjacent to us, how would we manage to develop an industry here that could survive economically? Potentially our largest market might well be excluded because we have such a bad relationship. If all our cars were not sold to the United States, our export market, to what parts of the world would they be sold? I put it to you, just to supply Canada would not justify a whole auto industry. You would have to find export markets, as have other countries, in order to justify an auto industry in their countries. How would you deal with that?

Mr. MacLennan: That is an important question. As you know, Canada is now the sixth largest market in the world. It just moved up from seventh.

There are some problems with the Canadian automobile industry. One is that we are mainly on the assembly side. We could not create a Canadian car at this point. We support the United Auto Workers and the manufacturing industry position of 60 per cent Canadian content as a step towards that.

We also need to look at different options. One could be in the form of the province and the federal government in joint ownership in a turnkey industry in conjunction with a foreign-owned industry such as Lada in the Soviet Union was with Fiat. It could be from one of the other countries. We could produce a car that would be based on Canadian needs. It does not necessarily pertain to one level.

It would also entail the same way the Japanese developed their industry. It would be protected. You would look at the question of keeping down imports of automobiles from other countries to ensure the Canadian automobile was protected. That would be an important part of it.

Mr. McFadden: Do you mean to put quotas or some--



Mr. MacLennan: In the same way France keeps Japanese cars to three per cent.

Mr. McFadden: What do we do with all the existing manufacturers in Canada--General Motors, Ford, Chrysler, Renault and Volvo--while this is taking place?

Mr. MacLennan: Parts of that industry would be taken over.

Mr. McFadden: We would take over parts of the existing auto industry?

Mr. MacLennan: Yes.

Mr. Massie: We would have an integrated Canadian auto industry.

Mr. MacLennan: This brief on our alternative for the automobile industry was when Chrysler was in trouble. If one reads it, one can see that we would be in pretty good shape now if we had taken over part of Chrysler with the help of the workers' money in the sense that we could look at the prospect of entering into an agreement with Chrysler for producing in the Canadian market. That would be one option. They may be hostile to that, but there are others. You could use their facilities.

One thing that also would have to be taken into consideration would be the dislocation of workers. There might be some dislocation.

Mr. McFadden: If these companies all were closed down or something were to happen.

Mr. MacLennan: I do not think we would look at closing them all out. There is intercorporation rivalry anyway. Some corporations might take advantage of that.

Mr. Massie: We have a more comprehensive question dealing with the auto industry where we call for an integrated Canadian car industry in the long term.

Mr. McFadden: I have a final question with regard to your material. What you just said would imply some potential co-operation with some multinationals. I notice that later on you mention the nationalization of transnational corporations in Canada. I take it you are referring to transnational corporations wherever they might exist. What do you mean by "transnational"? Are they of any size? Are they small companies with only three or four employees as well as large ones? Does "transnational" refer to a certain class or type of company?

Mr. Massie: It is just another name for multinationals. Basically we are talking about US-owned companies that operate in Canada and throughout the world.

Mr. McFadden: Would only US-owned companies be nationalized?

Mr. Massie: In the first place, yes. There would be some Canadian ones, for instance, basic steel and the banks.

Mr. McFadden: I was getting at what exactly "transnational corporation" meant. What does that refer to?

Mr. Massie: Multinational corporations operating in Canada.

Mr. McFadden: Only American-owned?

Mr. Massie: Not only American, but basically American-owned. Those are the key--

Mr. MacLennan: They are the dominant ones.

Mr. Massie: They dominate key sectors of the Canadian economy that are vital to the rational planning of production in Canada. As long as they remain private and foreign-owned, our ability to control them is limited.

Mr. McFadden: What size are you talking about? A lot of companies owned by foreign interests are very small. They are not huge.

Mr. Massie: We are not talking about very small ones. We are talking about companies such as General Motors and Inco.

Mr. McFadden: So the small ones you would leave alone.

Mr. Massie: The ones that control key sectors of the economy by virtue of their size and assets.

Mr. Chairman: Thank you very much for your presentation. I appreciate your coming and expanding on it. I do not mean to be provocative, but I must say that a lot of the examples you give us of the future Canada would have under a free trade arrangement remind me of the situation faced today by countries in eastern Europe who have an arrangement, perhaps against their own will, with the Soviet Union.

Mr. Massie: I would dispute that.

Mr. MacLennan: That is pretty unfair at five past twelve. You guys are obviously preparing for lunch or something.

Mr. Chairman: We could debate that for ever.

Mr. Massie: Actually, if you talk about free trade, it is only under socialism that it is possible between countries on an equal basis.

Mr. Chairman: You do not really sound as if you are espousing complete socialism any longer, anyway.

The committee recessed at 12:06 p.m.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS  
ONTARIO TRADE REVIEW  
TUESDAY, AUGUST 20, 1985  
Afternoon sitting



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Staff:

Traficante, F., Research Officer, Legislative Research Service

Witnesses:

Bailey, M., Director of Marketing and Business Development,  
Keycorp Industries Ltd.  
Campbell, D., General Manager, Marketing and Sales, Trent Valley  
Paperboard Mills Division, Paperboard Industries Corp.  
Riddolls, W. E., President, Strathcona Paper Co.

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, August 20, 1985

The committee resumed at 2:04 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: This afternoon we are going to hear from representatives of the boxboard industry, the paper industry. This was first brought to my attention by the member for Frontenac-Addington (Mr. South), who indicated some concern in that regard.

We have made contact with them and we have with us this afternoon Duncan Campbell, general manager, marketing and sales, Paperboard Industries Corp., Trent Valley Paperboard Mills division. Where is that, Duncan?

Mr. Campbell: Just outside Trenton.

Miss Stephenson: It is a totally new division which makes paper from recycled waste paper. Unhappily, the only thing that was really disturbing about it was that they had to import all their machinery from Japan.

Mr. Taylor: Since we have this ecumenical spirit this afternoon, I want the record to show that I sadly miss the member for Frontenac-Addington, but I am delighted he has now become an ally in my support of this industry.

Mr. Chairman: That is fine. Of course, Mr. South has already been thoroughly briefed by these people.

We also have Mike Bailey, who is director of marketing and business development for Keycorp Industries Ltd. Is that here in Toronto?

Mr. Bailey: No, we are based in Vancouver. That is the Belkin group of companies. We have a mill in Toronto.

Mr. Chairman: Earl Riddolls is president of Strathcona Paper Co.

We have some material you have given us and a brief that has been prepared. We are used to interrupting. Would you like to make your presentation first and have us interrupt only for clarification purposes?

BOXBOARD INDUSTRY

Mr. Riddolls: With your permission, I will lead off. My name is Earl Riddolls. I am president of Strathcona Paper Co.,



which is a division of Roman Corp. Ltd. based in Toronto. We thank you very much for giving us the opportunity to talk to you today.

The Kennedy and General Agreement on Tariffs and Trade rounds have reduced duties on boxboard tremendously and there seems to be a movement in the air for free or freer trade. We are looking for maintenance of the status quo.

Unfortunately, Mr. South was unable to be here. He hoped to be but he had some other engagements. It happens that our mill is located in his riding. However, Mr. Taylor represents the constituency where most of our employees reside.

You have a brochure prepared by the Canadian Pulp and Paper Association, entitled Views of the Canadian Boxboard Industry. You also have a copy of my letter to Mr. South, which gives a thumbnail sketch of the problem. It is not our intention to read our briefs to you, but we would like to comment on them.

I would like to expand on my letter a little bit to show you what would happen to a reasonably comfortable community such as Napanee if free trade came to pass. I can assure you it would be a disaster and I am sure Mr. Taylor will confirm my views.

Greater Napanee is a small community of not more than 10,000 people, but there must be hundreds of such communities in Ontario. While we are talking today about the boxboard industry, the general topic applies, I am sure, to many other industries that are in a similar situation.

There has been a mill in Strathcona for well over 100 years. For the first 75 years of this century, the Finlay family struggled to provide a good living for the mill employees. In turn, in the last 10 years under Roman Corp. Ltd. ownership, we have spent many millions of dollars to modernize the mill and introduce new products.

We are not talking about a broken-down mill, milked of its profits, and asking for a handout to delay the inevitable demise. We are talking about a well-run mill and a dedicated work force. We are talking about a mill which, in spite of generous and intelligent spending, cannot compete with United States industries because of market forces and business conditions largely determined by government action.

The other main employers in our town are Gibbard Furniture Shops Ltd., which will suffer the same fate we face, and Emerson Electric Canada Ltd., which will go back to the United States. Napanee will be left with no major employers and will literally die. I urge this committee to study our submission and make a strong representation to the federal government on behalf of the people of Ontario.

I thank you very much for listening to me and I will be glad to answer any questions now or later. Mr. Duncan Campbell will follow along and tell you about Paperboard Industries Corp.

Mr. Taylor: Mr. Chairman, do you wish to put questions?

2:10 p.m.

Mr. Chairman: It might be appropriate to ask questions now of Mr. Riddolls, if you have them.

Mr. Taylor: One comment interested me and I think it might be of some interest to other members, Mr. Riddolls. You talked about the modernization program that has gone on. I am familiar with that, the old Finlay family developing that. Then your company stepped in and developed a state-of-the-art operation with good management. You indicated that there is an economic environment that would force you to close down if the tariff barriers were eliminated.

Mr. Riddolls: That is right.

Mr. Taylor: The message I got out of that was that government was somehow responsible or partly responsible for this. I am setting that tone because I know the New Democratic Party members were concerned about the issue of competition and that the social gains made in the province not be sacrificed in a rush to be internationally competitive.

There has to be more to this, which I would like you to enlarge upon, whether it is the tax regime you are talking about, certain social benefits that are enjoyed by your workers that would not be or whatever it is if you were forced to do to try to survive in the larger market without some type of protection.

Mr. Riddolls: Very briefly, there are a great number of areas in which we are at an economic disadvantage. Mr. Bailey will expand on those a little bit, and I will comment on it roughly.

There is the matter of taxation, unemployment insurance and medicare benefits that are much more generous in Canada than they are in the US. Transportation costs are much higher in Canada than in the US. Raw materials are much lower priced there. We are all recycled mills, incidentally. We use no virgin fibre in any of our mills; it is all recycled.

One of the main functions of this industry, as a side effect but one of the main social benefits, is that every pound of fibre we use avoids going to landfill, which is a costly and environmentally sometimes dangerous product. Wage rates are a lot lower in the US than in Canada. That is somewhat influenced by some of the extravagant gains that have been made by government employees, particularly federal government employees.

With that overview, I would like to leave it there and let Mr. Bailey enlarge on it and discuss the question.

Miss Stephenson: Why is the cost of the raw material or the feedstuff higher in Canada? It is still the same waste paper.

Mr. Riddolls: You are asking me a question I hate to answer, but I will. In the United States there are mills that operate entirely on waste paper gathered up by local people who have a job. But in the morning on their way to work and on their way home at night, they will pick up newsprint, corrugated cases and things of that kind. The next day they go in and sell them at the mill.

Miss Stephenson: This is entrepreneurship rather than voluntary action.

Mr. Riddolls: That is right.

Mr. Mackenzie: Either that or wages are so low they cannot get by on them.

Mr. Riddolls: In Canada we are unable to generate that kind of situation.

Ms. E. J. Smith: I missed that. You say they pick them up from where?

Mr. Riddolls: From their neighbours, their local hardware store or their local department store.

Ms. E. J. Smith: And then they sell them to the mill.

Mr. Riddolls: Newsprint, old corrugated cases, things of that kind.

Mr. Chairman: We have a system in Kitchener whereby 85 per cent of our residents put newspapers out in specified boxes and they are recycled.

Mr. Riddolls: Your community, sir, is unique in Canada.

Mr. Chairman: There is no reason others cannot do it.

Miss Stephenson: There is a system whereby the residents put them out voluntarily and somebody comes along and picks them up and sells them. But you are saying that unless we develop more of that, there is not going to be an equalization of the--

Mr. Taylor: You cannot say the government does not do its share in producing waste paper.

Ms. E. J. Smith: That is right. The citizens will put out their paper voluntarily. We do in London as fuel for our garbage incineration and it is a contract. The guy pays for the contract to pick up the newspapers, which he sells to the city.

Mr. Chairman: It just takes a little innovation. In our city an entrepreneur gave every resident a large plastic box and now it is socially unacceptable not to have that plastic box sitting beside your garbage pail.



Mr. Campbell: You have to think about the level of volume we are talking about. One of the major advantages a US company would have would be to be located in New York city. Our mill, the one I represent, uses in excess of 100,000 metric tons a year. It would take a major population centre to generate that kind of material.

A very large part of our higher costs is for transportation to our mill located in Trenton. I would submit that my friendly competitor, Earl Riddolls, has an even worse situation because I am sure he draws a significant amount of his raw material from Toronto, which is that much further away.

Mr. Bailey: If I may just interject, within our firm one of our subsidiaries is the largest paper stock company in Canada, Belkin paper stock, which initially was set up to generate this waste material for our mills. We have mills in Vancouver, Toronto and Montreal. We are the largest producer of boxboard in Canada. With our market being horizontal as opposed to the large circular markets that the United States has, you can see our costs are far higher in transporting that waste material.

We started the program you are talking about, the pickups, in the community of Richmond. As you well know, your community is far along on that, more so than we are. It is a good program and it works, but like any marketing program, it takes time. We will develop that; you can count on us. We will do that, but we are not there yet. At this point, with our markets being horizontal and the transportation costs, we are all paying far more for our material.

Mr. Mackenzie: I am not sure but I think we have been a little sidetracked. You started out with a defence for the status quo and a strongly stated concern as to what free trade could mean.

This morning we had a presentation from the Retail Council of Canada. If I can read just a short passage, they argue an opposite position to you, that we need to take a look at being a little more open. They say:

"There are those who demand that detailed analysis of the net impact on Canadian industries of free trade with the US be done before Canada allows itself to be locked into a comprehensive treaty. Such analysis would be difficult, if not impossible, to do because so many variables and assumptions need to be taken into account."

If I can skip a bit down here, they go on to talk about a C. D. Howe Institute research study, which says, "A 10 per cent share of the USA market for some Canadian industries will, in terms of employment and income, compensate for substantial losses or adjustments in other industries." In other words, the basic argument they have made is that we cannot be deterred by the argument that some might get hurt because overall we are going to benefit.

Do you have a specific comment to the argument made by the retail council this morning? I have some of my own but I am just wondering.

Mr. Taylor: He does not want to be a statistical tradeoff.

2:20 p.m.

Mr. Riddolls: There are some basic local industries that are not world traders, and every country should maintain a presence in that area for quite a good reason. We have small converters that are labour-intensive, produce many jobs per million dollars of output and give good employment and satisfying jobs to our people but are unable to get raw materials in sufficiently small quantities to continue to exist.

There is a very good company here in Toronto that buys side sheets in substantial quantities and sheets that into one-ton, two-ton and three-ton orders; it supplies a substantial part of the industry with these small quantities. These quantities are so small that even a mill cannot economically process them. If our mills disappear, that company does not have a hope in the world of buying that material from the United States; it is going to disappear.

Mr. Mackenzie: You are saying there is a multiplying effect to your own industry.

Mr. Bailey: I should make it perfectly clear that, as you know, we met with the federal minister Mr. Kelleher on April 25; so what we are saying is a representation from the industry as a whole, not simply from our three operations.

As far as the concept of free trade is concerned, we think it is a wonderful idea, but we are saying that free trade must be fair trade.

If you want to talk about competition, do we want to compete with the Americans? You bet, eyeball to eyeball, man to man, woman to woman, whatever you want; but we want to have fair competition. Right now, before a Canadian producer of boxboard produces his first ton, he faces costs that are beyond his control and have nothing to do with business acumen or ability to compete in such things as higher wage rates, higher transportation costs, higher capital costs, higher cost of equipment and higher cost of capital.

Our machinery costs more here. We have smaller markets, while the United States enjoys large circular markets, which we just talked about. It just baffles us that we can say, "Let us put you on an equal footing with the Americans," when the Americans are starting off at far lower costs. Let me repeat that. Sure, we want to compete--free trade, sure--but you cannot put us into a position where we have to compete with the other fellow when he starts off with very significant advantages.

To give you an idea, in 1966 the duty rate for American boxboard coming into Canada was 22.5 per cent. In that year, the Americans enjoyed a six per cent share of our market. Today the rate is 10.7 per cent and they enjoy a 19 per cent share of our market. For most of that time, there have been no tariffs on Canadian boxboard going into the United States. Do we have any

share of that market? No. The only ones who are going to benefit by removing or lowering these tariffs are the Americans.

I may sound like I am talking out of both sides of my mouth by saying, "We want to compete," but I am not. We are not looking at several of the uncompetitive industries or plants going down. We are talking about--and I am not exaggerating--the destruction of the Canadian industry. I can tell you right now that if the tariffs are removed, we will close.

I cannot sit here and tell you that we are going to lose hundreds of thousands of jobs. To be honest with you, we are a small group within the macroeconomy of the industry. In boxboard production, we employ 3,578 people and we generated \$105 million in wages and salaries last year. The total volume in dollars was \$385 million. We know we are not large. We know we are not the lumber industry in British Columbia or Ontario, but we are talking about the destruction of a Canadian domestic industry.

We cannot honestly sit here and give you numbers that will stand up if this industry goes down. I do not know how to estimate numbers for the spinoff effect, which Mr. Riddolls was talking about, on these small converters or packaging operations. When the US market picks up, as we all know, they will go to their own. It is a far cheaper, simpler and more effective place for them to do business. That will leave our converters out of business. So we are talking about some significant spinoffs here.

Again, summing up, we would like to compete, with fair trade. Our position is that prior to removing tariffs or considering that, some consideration should be given to putting us in a position to compete and not having unfair or overly excessive costs before we even begin.

Mr. Chairman: You use the words "prior to." It almost suggests that somewhere down the road you would be prepared to accept their removal.

Mr. Bailey: I have to say that, although I must admit we are talking about something I honestly believe cannot exist, because we are talking about changing the very fabric of our economy. If costs were equal--and when I say costs, I mean payments to governments, etc.--we would be delighted to compete with the Americans eyeball to eyeball. I have no doubt that, as Canadians, we could do that.

Mr. Mackenzie: We get conned a little in this competition argument, because we are finding that many US industries cannot compete within the United States. A number of my contacts, in the labour movement admittedly but in some of the more highly paid industrial states, such as Ohio and New York, are crying the blues in industry after industry because of the switch to the sunshine states in the south. Right-to-work laws and a number of incentives that essentially reduce wages and a number of other costs mean that, even within the United States, they are seeing a real run on some of the traditional industries in a number of states that previously were the backbone of industry in that country.



That is why I got a little disturbed when you made the argument you did at the beginning, that you pay decent rates and have a good level of income for your people, and yet two or three times during your presentation you cited lower wages in the United States as one of the competitive costs. That is a losing argument anywhere, because you are either going to have a switch in the states from some of the industrial north to the new southern states or to somewhere in the Third World that can pay 90 or 80 cents or something an hour. That does not apply to every industry but it is one problem in which you get a little trapped in your arguments on occasion.

Mr. Bailey: With all due respect, my argument simply concerns the fact that lower wages are paid there. Obviously the cost of our product is going to be higher if we have to pay higher wages. I am in no way suggesting that we return our industry to Third World standards. It is just common sense. We cannot sell as cheaply.

I will tell you right now, all of us are facing tremendous price pressures from the United States in our industry. Indeed, backing up your argument, there is trouble in the US industry. Some of us are considering launching an anti-dumping case at the moment because of that. You are quite right; there is great competition even in our industry in the United States, and they are having trouble.

My point was quite simple. I do not see how we can compete. Who is going to buy our products if it costs us more to make them? We just cannot compete.

Mr. Mackenzie: The continuing emphasis is on lowering wages or income levels, which has been a trend for a few years.

Mr. Bailey: No, I do not think so.

Mr. Mackenzie: I am saying that is one component because you have raised it yourself. If that is part of the argument, then there are a lot of us who are not going to be able to provide jobs. Some of the arguments made to this committee about an industrial strategy, to start with, and exactly what we are trying to do with our resources and our industry, probably are as important as this whole question we are discussing right now.

Mr. Bailey: I appreciate where you are coming from, but I simply have to reiterate that my statement has nothing to do with philosophy. It is strictly based on the fact that you cannot sell the product at the same price when it costs you more to make it. That is as plain as I can put it.

2:30 p.m.

Mr. Riddolls: If our taxes or transportation costs, things over which government has some control, were even, we would be in a much better position. Let us go back about 20 years, when Mr. Pearson settled the seaway workers' strike. That started an escalation in wages in Canada that has just been rolling.

Three years ago we were told there would be no settlement in our industry without a 17 per cent wage hike. Our people are well paid; our people are the aristocrats of our area. I do not begrudge them the money, but we have a situation there. In those things over which there is a capability of controlling, if they are out of control, then we will be in a position (inaudible).

Miss Stephenson: What I am hearing is that there is no objection to the philosophical pursuit of the concept of trade enhancement or freer trade, provided there is an understanding that within certain industries there is no way in which the basis of that freer trade can be fair as a result of historical developments, the kinds of things that have happened in a number of industries.

What I hear you suggesting--I think I am hearing this and that is why I want to ask this--is that certain domestic industries should be considered important to our national capability to provide employment at reasonable rates for a considerable number of people. The recognition of our capability in certain industries, for example, should be excluded from any kind of arrangement that enhances trade in other areas. Is that what you are saying? And it is not a matter of picking winners and losers, which is the thing we keep hearing about.

Mr. Bailey: No. Dr. Stephenson, I think you hit the nail on the head when you talked about history playing a role here. Historically some arrangements have been made within government and costs that we do not believe can be changed. It would be changing the very fabric.

So yes, we are saying that if we retain those, there has to be some kind of balance on the other end; otherwise we are going to get into a position in which there will be a tremendous amount of trauma. These two gentlemen can tell you better than I because they both come from areas--

Miss Stephenson: Small towns with one or two industries.

Mr. Bailey: --small towns. That is going to cause a tremendous job loss and a great spinoff effect, as you well know.

I guess we are saying just what you said, that because of the historical perspective of these things that have been set up in the past, we have to have a balance at the other end. But we have no argument with the concept of free trade if we can do it. We would be delighted if someone could show us how we could compete on a free trade basis.

Mr. Riddolls: It is not very popular these days to ask for the status quo. It is not worth it when you do that. But that is what we need: the protection of the tariff as it now is to continue to compete until some other changes take place.

Miss Stephenson: Within Canada, because you have demonstrated that it is impossible to compete in the United States.

Mr. Riddolls: That is right.

Mr. Taylor: We do not have any exports to the United States.

Mr. Bailey: Very few. There may be a few times, but--

Mr. Taylor: And yet with the dollar differential they can export here and are increasing their exports here and competing very well.

Mr. Bailey: Precisely.

Mr. Taylor: Is that because of volume?

Mr. Bailey: Yes. And we are all suffering price suppression because of that in spite of the dollar difference today.

Mr. Morin-Strom: I want to pick up on your point about wanting to compete and the kind of things a government would have to do to provide the same environment for the Canadian industry as the US boxboard industry faces.

It seems what you are saying we would have to do would be to model Canadian legislation after American; that ultimately we would have to move legislatively into the same rules for taxes, health care presumably, labour laws, environmental regulations and so on to put us on an equal footing with the kind of governmental requirements they have in the United States, which implies taking away Canada's choice or opportunity to have an independent society or to set its independent course from where the United States is going.

Mr. Bailey: You are saying that, but it is completely unrealistic.

Mr. Morin-Strom: It is unrealistic, but are you not saying that for you to be able to compete that is what you would need?

Mr. Bailey: Yes, but I was saying that on the level of recognizing full well that it is completely unrealistic; it is not going to happen. I was illustrating the point that we agree with the concept of free trade and the ability to compete. The alternative is simply to maintain the duty; do not raise it or lower it. Then we do not destroy the fabric of Canadian society.

Mr. Morin-Strom: That obviously is an impractical and unrealistic alternative.

Mr. Bailey: Of course.

Mr. Morin-Strom: It is unrealistic not only for your industry but also for a lot of smaller industries, probably not cottage industries but small-scale, community-based industries that are not competing on the global scene. I take the view that you are here to represent some smaller industries that are supporting individual communities in the province, providing products for a local area within the Canadian economy and providing some self-sufficiency within a given product.



Mr. Bailey: Boxboard is not world trade to begin with. We do not trade on the world market in boxboard. It is a domestic industry, and we cannot compete on the world market. That is another argument.

I do not think you want me to comment on other industries. That is far out of my scope and in your realm. In our industry it is unrealistic to assume we can change all the things you and I mentioned about the way society is in Canada, and for some very good reasons we may not want to. The simple alternative is to maintain the duty.

Mr. Morin-Strom: You mentioned that 10 of the 13 manufacturers are in small towns. In most cases are they not the primary or only major supplier of industry in those towns? What would be the likely consequences for those communities?

Mr. Riddolls: They are the major employer in most of those towns.

Mr. Morin-Strom: Would you anticipate a major readjustment cost in terms of the dislocation of those people resulting from loss of business completely throughout those towns and in other areas as well?

Mr. Riddolls: Absolutely.

Mr. Campbell: Yes. An important thing to recognize is that the companies you are talking to have a tremendous history as far as Ontario is concerned. I get a little bit concerned when I hear the discussion going outside the parameters within which I am dealing. When I talk about my company right now, I am talking about Ontario and about small communities in Ontario, but I do not think it is too much of a cottage industry.

My company has 625 employees and more than \$70 million in sales. They might represent 50 per cent of the total cost of our customers. Although we are much smaller--and you must recognize the three of us do compete hard all the time; we are much smaller than this gentleman right here--we are still very significant.

The major thing I am concerned about is that you people recognize that, if anything, we are here to say you had better support us in Ontario. We are not the major industry in Trenton--Trenton has 15,000 people; it has the air base, Quaker Oats and a number of industries--but we are probably the highest payer. If you have, as we do, a \$16.8-million payroll, it is very significant to the area. I do not know how we can possibly compete with the US companies that we see in our marketplace.

2:40 p.m.

Mr. Mackenzie: Are you the second or third biggest employer in Trenton?

Mr. Campbell: I do not know. At one time we had the second-largest payroll after the air base, but I think we have been taken out since then by some of the larger companies that

came in. They are branch plants, but they are very large branch plants.

Nevertheless, in regard to the statistics I have become concerned about, we produce 90,000 to 100,000 tonnes and represent a significant part of the industry. The three of us together represent 40 per cent of the entire Canadian market. We are competing with companies that are virtually larger than our entire Canadian market. We just cannot compete with their economies of scale and their opportunities. Dr. Stephenson was kind enough to recall, having toured our plant--we asked Dr. Stephenson to come down when she was Minister of Labour; she toured it and I remember very specifically her saying to the owner at that time that building a new, up-to-date mill was a very courageous act.

Miss Stephenson: It was an act of faith at that point.

Mr Campbell: His faith did not pay off and there are new owners. That is the way this sort of thing goes.

Napanee has been around for a long time and the Finlay family are very fine people and still involved in the industry, but I can assure you they are not the original owners. People have taken these chances to stay effective in the industry and I think we know best what we need. People keep on saying the exchange rate is the big thing. I think the exchange rate is a rationalization between the two countries. The tariff is a whole lot of things. It is not only something extra that they have to pay; it is also a bit of bother they are not prepared to go to. We need that kind of support and that is certainly what my company is asking from you.

Miss Stephenson: It seems to me there are eight or nine communities in Quebec where the companies listed on this list are the primary industries of those communities and those communities would probably disappear completely. I do not think Grand-Mère would even exist if it were not for Consolidated-Bathurst.

Mr. Chairman: I apologize, Mr. Campbell. I do not know whether I actually asked you to make a submission.

Mr. Campbell: I am sorry if I got ahead.

Mr. Chairman: It is okay. It is my fault. You were answering a question and we got carried away with it. Would you care to make a more formal submission?

Mr. Campbell: No. I am open to questions. I should say that I am speaking for Trenton, but we also have locations in Bradford, Markham and Etobicoke, all of which are closely related and interdependent. We buy in the United States with regard to raw materials. We cannot get sufficient raw materials from Canada out of the solid waste stream. We spent over \$5 million last year in doing that.

Mr. Mackenzie: We discussed some cities earlier, Kitchener being the most notable example. Our city of Hamilton has been gradually extending what was originally a make-work project for a number of people, a third sector project that now is

collecting paper. We have a schedule in my area of the city and we stick our paper out and it is picked up every second week.

What kind of shortfall do we have and what is the problem price-wise in the supply of waste fibre? Obviously, we are going to have to go to more recycling and collection. That is going to be one of our answers for a lot more things than paper. Is there enough of it in the major cities to meet your needs?

Mr. Campbell: There is more than is currently being collected. There is a good question as to whether it is economically viable to collect it.

Mr. Mackenzie: That is part of what I was really asking in terms of price.

Mr. Campbell: I suspect it is not, because one of the features I hope you can appreciate where we do compete--we touch one another in terms of our marketplaces, but we have a quality spectrum that is really quite different from the competitors and they feed a different market. What I am saying is that whereas the secondary fibre we want may be waste paper to you, it is part of a recipe for us. Where Kitchener will get very aggressive about putting things out, the majority of the post-consumer waste would be in the form of newsprint or newspaper. That is probably going to the Ontario Paper Co. Some of it would get its way down to Mr. Riddolls and so on. However, my company would not use much of that.

We would be using your old corrugated box, so we would draw from various supermarket chains and so on. What is involved is a matter of getting a sufficiently economic baler into the location, getting the local manager interested enough to cause it to be baled and so on. It is not an impossible task, but the simple reality right now is that you can buy it cheaper in the United States despite the exchange rate and a horrendous freight cost to get it up here.

Mr. Mackenzie: Is that one of the areas we should be considering if we get in a position to insist on recycling and collecting the various forms of waste? Are the costs so far apart it is just not going to be feasible in any event, or is that also one area in which there are some offsets in terms of waste disposal and so on?

Mr. Campbell: A tremendous social question is probably coming up, concerning landfill sites and so on. I really cannot get into that. I can assure you each one of us--in fact one, in the centre, has a recycling division, the accumulation of material. My company is looking at it hard but it is not at the moment economically viable.

Mr. McLean: Is their requirement being viable a long way?

Mr. Campbell: Yes, it definitely is. Those things change so quickly. When you cannot get that material and you have to make delivery and maintain your market, it can be something you are prepared to go out and do. In terms of a pragmatic business approach, it is not likely you could get anybody interested in



going into Trenton, for example, and developing something. Perhaps Hamilton would be of some interest but, to my knowledge, it does not have a waste paper dealer. Am I right, Mr. Riddolls?

Mr. Riddolls: I think part of one.

Mr. McLean: I think some of us are going to have to initiate recycling projects.

Mr. Riddolls: There is one in Burlington and I think there is a branch of another organization in Hamilton.

Mr. Chairman: There is a newsprint recycling plant of some sort in Burlington.

Mr. Bailey: We would not be in the recycling business if we did not have--

Miss Stephenson: If you did not have to be.

Mr. Bailey: That is right. It is not a money maker. It is to supply our mills.

Mr. Riddolls: The waste paper business is a difficult area. You will not like this very much, but you almost have to have free labour.

Mr. Mackenzie: We are not paying the third sector people a lot, but some of them are making a living who were not before and were unemployed.

Mr. Riddolls: If every one of our employees picked up 200 or 300 pounds of paper a day, that would ease the situation and he would get paid. He would not get \$13 an hour for it but he would make himself some pocket money. If we can get the general population interested enough to gather these small quantities of paper into an area so it makes it economic to pick up, then we gain socially and municipal governments save money in the collection of solid wastes that then have to go to landfill. Here in Toronto I do not know how you get it. It must go by train or something some place.

It is a horrendous problem. About 40 per cent of solid waste is paper of one kind or another. I do not think we can decide to set up a government paper recycling organization. I think it would be a tremendous problem.

Miss Stephenson: What about the possibility of suggesting this is a reasonable employment opportunity development for those who are being trained within ARC Industries?

Mr. Riddolls: There are certain branches that do that, not many but some.

Mr. Mackenzie: I am always a bit suspicious of some of the costs. I accept that at the moment it is not feasible. I can recall in my own town a meeting just two weeks ago with a number of the officials of Stelco Inc. I can recall for years their

giving me the arguments it was not useful or cost-efficient or even to be considered with respect to gathering either pop cans or food containers. Now, because they are in a bind regarding the potential loss of some jobs and steel orders, they tell us they are prepared to go into collecting in a major way, not just pop but all cans.

Miss Stephenson: Phasing in aluminum certainly clarified the minds.

2:50 p.m.

Mr. Mackenzie: Now they are saying we might even be able to get within reach in terms of cost. All of a sudden, when you have your back up, things can happen.

Mr. Campbell: That is not a solution to the question of the tariff, however, and our inability to compete if that tariff is off.

Mr. Mackenzie: There is more than one answer. I know that.

Mr. Chairman: Mr. Riddolls, I may not be understanding you, but are you suggesting that the culture in the United States is a little different from what it is here and the lack of social security may endorse free or voluntary salvaging operations?

Mr. Riddolls: It is a little different way of life.

Mr. Chairman: You are also saying that salvaging paper operations in smaller communities is not worth while economically.

Mr. Campbell: I do not want to say that. I would suggest that if I as a private individual were to try to set up a waste paper recovery business, I would not set it up in the normal small population centre such as Trenton or Napanee. I could not generate enough of the material of the different types required by the different mills to make it worth my while. You can have a glut of old newspapers on the market. There is only so much demand for that type of material.

Mr. Chairman: But I hear you talking about competing with a very ad hoc situation. Surely this voluntary salvaging that may occur in American cities does not result automatically in more newsprint than is read in Trenton every day.

Mr. Campbell: If you are suggesting a different attitude might be desirable, I totally agree with you.

Mr. Chairman: That is not what I am getting at.

Mr. Campbell: A person with a pickup truck who lives in my area and wants to put a little money into a bailer sure as heck can find a customer for his product. In the United States, apparently, they have that, but the guy with the pickup truck in the US probably lives in a community that is a lot bigger and so he can keep it busy all day.

Mr. Chairman: But the fellow with the pickup truck in Trenton, if 80 per cent of Trenton people put out their newsprint, would get a heck of a lot of newsprint, surely as much as the guy in a much larger US city is going to find in an ad hoc scenario.

Mr. Campbell: Will you accept the point I made that the mill in Trenton needs old corrugated material and not newsprint?

Mr. Chairman: All right.

Mr. Campbell: I have to make that distinction. There is no sense generating it if you are not going to use it. It is probably part of our problem in being able to compete with the United States. Another part I would like to mention is that we, being a good company with a dedicated work force and with state-of-the-art machinery, have to make a lot of changes to feed a market such as we have.

For example, in two major grade groups--I am here representing what they call boxboard, but I sell to the games industry; go check that one out--anything that is laminated and thick and so on, the linerboard market, it is all being done from one board mill, or actually three, but there is one big one that Dr. Stephenson saw. The competition in the United States has the same machine and runs the same thing, day in and day out, probably 350 days a year. We are down to 345 because of statutory requirements.

I am not looking for a great social change. I am talking to people from Ontario who represent three different parties and I represent a company which is a significant one in Ontario. I am telling you we cannot hang in there despite the fact that we are not so bad. The really quick fix would be to move New York into Trenton and I do not advocate that.

Mr. McLean: What is the biggest cost factor difference between your company and a similar company in the United States? Where is your most significant cost factor difference?

Mr. Campbell: It would have a lot to do with raw materials, there is no question, but it is really in the cost of operations, in my opinion, and the other two can answer how they feel.

If we did not have to make 25 or 30 changes inside a month to represent our market and/or carry the inventory, which is the other side of that, to have longer runs and so on, we would be fine-tuning the machinery much more than we do now.

Mr. McLean: Is it your raw materials?

Mr. Campbell: It is the raw materials, and what we are talking about is the cost of manufacturing.

Miss Stephenson: And production lines.

Mr. Campbell: That is right.



Mr. Bailey: Which brings up the point that none of us can do anything about, the fact that the United States has such large, concentrated markets. In the United States, it is very simple when you have that many people in a radius of 10 miles, whereas our market is so stretched out. We cannot help that.

Mr. Chairman: That is important to you, particularly because of the costs of transportation.

Mr. Bailey: Exactly.

Mr. Morin-Strom: I would like to ask about dumping of products into the Canadian market and you made a slight mention of that. Has there been a problem? Is there a growing problem with the US companies using us in order to sell surplus production capacities?

Mr. Bailey: Yes.

Mr. Morin-Strom: If the markets were opened up, could it be that we would be very vulnerable to them using up that excess capacity to generate contributions and wiping out our industry, even if we were more competitive?

Mr. Bailey: You are asking me to predict the future but, yes, you have got it. Right now there are companies in the United States that find it good business to sell into Canada at prices lower than they are selling in their domestic market simply to keep their runs going.

If we remove the tariff, that would be another 10.7 per cent difference where they could further compete. Even with the tariff now, we are already suppressing our prices to meet theirs and to compete with them and beat them. So you are right, if we remove the tariff it would just give them a further competitive edge to continue to dump and, yes, they are dumping.

Mr. Morin-Strom: My experience in business is that when companies are competing in a new market that is not part of their home market, they are willing to discount the prices as long as they feel it is not going to affect their home prices. In that kind of situation, a new market such as Canada opening up to your industry, and a lot of other industries as well, may give them a dumping ground for surplus capacity. The Canadian market in total is a relatively small part of the total US market so it is an ideal way of boosting their total output.

Mr. Bailey: Yes. According to our federal anti-dumping legislation, dumping occurs when a company from a foreign country sells in our market at less than the prices it offers that same product for sale in its own market. Yes, they can compete, they have every right to come in and sell the product for nothing if they want, as long as they are doing that in their country. But right now we have the net effect of Canada being used as a dumping ground to keep their runs going, which in the long run--I guess they know what they are doing--is more economical, but they are selling for less in Canada than they are in their domestic market.

Mr. Morin-Strom: The steel industry has gone into a lot of anti-dumping cases versus Third World countries primarily, or the newly developing countries and some European countries. I do not believe the US has actually dumped steel into Canada, but are the companies in your industry large enough to be able to undertake the financial and legal costs and the time required adequately to conduct anti-dumping cases? It sounds as though you have not conducted any at this point. Is there a real problem in being able to combat that?

Mr. Bailey: My company is capable of doing that, yes.

Mr. Morin-Strom: Why have you not?

Mr. Bailey: We are.

Mr. Morin-Strom: You are in the process?

Mr. Bailey: Just the first submission. That make take some time in coming back to us, but we have put in the first submission.

Mr. Campbell: It is important to recognize that they do not have to dump. Their list price is a dump.

Mr. Morin-Strom: Compared to our prices, but not compared to theirs.

Miss Stephenson: The variation between the dollars.

Mr. Campbell: The two types of major market grades that we service are the linerboard or the corrugated market and the boxboard. The linerboard market is very much larger and in the United States it is the state of the art. Twenty per cent of their capacity is dedicated to export sales.

When the exchange rate changed, they were no longer able to use Europe and the Far East as their place to put their product, so that 20 per cent started to work its way into their own domestic market and, with supply and demand, what happened was that prices came crashing down. They are well below where we are in terms of pricing, and that is provable anyplace. We can buy too and we have companies that would be probably happy to do just that.

But the real thing in terms of economies of scale is that in the 20 per cent I am referring to, we are five per cent. Our entire market right across Canada is five per cent. Twenty per cent of their capacity is available for export and they cannot export it to Europe, so we are the target. Our entire market is five per cent of their capacity.

Mr. Bailey: Our packaging arm, Somerville Belkin Industries, makes 68 per cent of the milk cartons in Canada. Last year we imported between 60,000 and 70,000 tons of a product called polyethylene milk carton stock from the United States. That is about \$30-million worth. We can buy it in Canada, but we can buy it cheaper in the United States.

Mr. Morin-Strom: One point brought before the committee many times since we have been sitting here--one of the major reasons for this whole discussion--concerns the protectionist moves being made in the United States, particularly the use of countervailing duties against Canada.

There seems to be some question as to whether anti-dumping and countervailing duties would be possible back and forth across the two country borders as a result of this. It seems that one of the Canadian objectives of a move towards freer trade is to eliminate the ability of the Americans to apply countervailing duties to Canadian producers of products here.

Would we be vulnerable in an agreement between the two countries to stop the use of countervailing duties and anti-dumping on all products?

Mr. Bailey: I am not sure if I understood your question. Are you taking, for example, the lumber countervailing situation?

Mr. Morin-Strom: In other words, in return for the Americans to agree not to apply countervailing duties to any Canadian industries, we agree not to enforce anti-dumping laws against the US. In other words, those laws are needed to protect Canadian industries and there are attempts to use similar laws in the US to protect American industries.

Mr. Bailey: We are small potatoes. We are just a small drop in the bucket if we start talking about the countervailing situation with regard to lumber. I come from British Columbia and let me tell you, if the countervailing duties go through in relation to British Columbia, you might as well cut us off at the Rockies and dump us into the sea, because that economy is gone.

It is a very grave situation. Our industry, being very honest with you, is nothing compared to the lumber industry. If you made a deal with the United States that will take the tariffs off boxboard and yet retain free trade in lumber, we would not have a hope. We are small.

Mr. Chairman: It does not sound as if your anti-dumping proposal is going to be terribly successful anyway.

Mr. Bailey: I think it will, frankly. We have prima facie evidence of dumping in the fact that I have a US price list and a Canadian price list, and the Canadian price list is lower than the US list. We have all sorts of other evidence, but that is the prima facie evidence I have in my possession.

We have gone a long way on this. I would be happy if we just stopped the dumping. We are not looking for a long fight; we are not looking for trouble; we are out to do business. Frankly, this is a bother. We do have evidence and we have to take every step possible to stop it.

Mr. McFadden: What stage are you at now?



Mr. Bailey: First submission to the federal government. I have not received word back yet, although I expect to this week. They may ask for more information, so it is a long process.

Mr. McFadden: The federal government has not started its own--

Mr. Bailey: Not yet. You know the steps they will go through.

Mr. Mackenzie: That was really the question I was going to get in on a minute ago. Is it worth going through--I guess you have to do it when you get a case like this--but is it worth the hassle, the anti-dumping? I had some people in the steel industry tell me once again that they have serious doubts about whether the running back and forth to Washington and the fights over anti-dumping are worth it or whether they really are accomplishing anything.

Mr. Bailey: I think that is a very good question and perhaps I will be able to answer it more accurately later. Indeed, you may be right; it may not be worth it. But at this point we are counting on the new legislation that was brought in by the federal government. It is relatively new in that it speeds up the process and should not require us to go off to Washington. In our case, in this one incident it should save us about \$7 million a year, so we think it is worth while.

Maybe I am wrong. When we get into it, I may be proved wrong and we will have to adjust our course, but we think it is worth while and we are going to protect Canadian jobs.

Ms. E. J. Smith: Obviously, there are different types of industries. If you compare in the same dollars, what is the comparison between your price for a product and the American price either in Canadian dollars or in American? What real differential are we talking about here?

Mr. Bailey: I can give you an example. I think the best example is our own case. I am being very candid again. If I recall correctly, our price on boxboard was US\$625 a short ton or a metric ton. I forget. Anyway, the comparable price the US came in with was \$580.

Ms. E. J. Smith: What is the tariff at present?

Mr. Bailey: It is 10.7 today.

Ms. E. J. Smith: Okay. Obviously, different companies have different problems. Where there is the biggest price differential, regardless of what is the cause of the differential, we are going to have to look at the major problems in unemployment.

Mr. Taylor: Vis-à-vis the issue that Ms. Smith raised, I do not think we should lose sight of the fact that the US could not or would not supply other industries here that are really too small a customer; so if the person before us were out of business, then there would be a spinoff from that. I think that is a point that should be emphasized.

Miss Stephenson: To say that, of course, is absolutely factual, but there might be an entrepreneur who would develop the business of dividing up the load as it is imported from the United States to supply the smaller customers. But there is an increase in cost again, and probably significantly less employment than that which would be engendered by the maintenance of current--

3:10 p.m.

Mr. Bailey: Right now, today, for example--I am not sure of my two colleagues' limits, but I think we are the same--our company cannot ship anything lower than three tons.

There is a gentleman, for example, in Toronto--I am not personally familiar with him but Mr. Riddolls is--who makes a very good living and employs people simply by buying three tons and supplying the one-ton orders. He does very well. That is a need in our economy for those smaller converters or packaging operations.

The point Mr. Riddolls was making was that if our industry were gone, they certainly could not get three tons out of the United States. There would be a new dynamic. We believe it would cause a loss of jobs on the spinoff. I could not credibly give you an estimate. I do not know how to estimate that.

Mr. Riddolls: Mr. Chairman, you have been very patient with us. Mr. Bailey would like to make a bit of a formal presentation and we would welcome questions.

Mr. Bailey: I think the presentation has been made and I do not want to beat a dead horse. The bottom line of what we are saying is that we are not asking the government to do anything more; we would just like to maintain the status quo. To maintain the jobs in Canada and to keep this domestic industry moving and as healthy as it is, we cannot see our ability to compete if tariffs drop any further. All we are asking is to be removed as a negotiating chit in the free trade argument. We are asking you to take us out and forget about us.

Mr. Mackenzie: That presumes we could get the United States to agree to let us carve out certain issues, which is another one of the weaknesses.

Mr. Bailey: I understand.

Miss Stephenson: What about the rest of the paper industry, which suffers much the same kinds of difficulties you do--not exactly the same, but somewhat the same. I gather it is still significantly cheaper to import two rolls of paper towels from the United States than to manufacture and sell them in Canada.

Mr. Riddolls: I do not think we can speak for the rest of the industry, but we can say that more than 80 per cent of the paper industry in Canada now has free trade. The segments that are not at free trade are similar to ours in that they are local industries that do not sell a world-traded product.

I am not exactly sure what all of them are, but the big industries, such as newsprint, fine papers and some others, are at free trade today. It is small ones such as ourselves that need this type of protection.

Mr. Chairman: You are not flogging a dead horse. Your words are falling on very sympathetic ears. I do not know whether I would go so far as to say they are falling on sympathetic ears in that we can keep the status quo in the economy in every respect, because we are getting warning signals that we have to make some decisions to move some way.

Mr. Mackenzie: I have a last-minute question. I was intrigued by your comments on the pulp issue in British Columbia.

Interjection: The lumber issue.

Mr. Mackenzie: If I remember correctly, you indicated you thought we might be okay on that issue. I was talking to a chap from the paper workers' union about a week ago who was a little more concerned when we talked about what would be the outcome of the current US move. He thought we would suffer to some extent.

Mr. Bailey: I am sorry if I gave you the wrong impression. I am just as concerned. In BC in March 1983, we had won a round on that issue, as you will recall. That was fought on the substance of it. I am far more concerned now because it is being fought on an emotional and political level. The Premier is actively involved and has been to Washington. I am very concerned.

I remember one figure--I assume it still applies--that about 50 cents out of every dollar that every individual in British Columbia earns somehow comes through the forest industry. You can see the havoc that would be wreaked if we faced those barriers. I share your friend's concern. I am sorry I gave you the wrong impression.

Mr. Chairman: I thank all of you for travelling to Toronto to be with us. We appreciate it.

Mr. Riddolls: We thank the committee for a sympathetic and patient hearing of our problem.

Mr. Chairman: That concludes things for today. Tomorrow we will hear from one of the boys from Queen's and Western.

The committee adjourned at 3:15 p.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, AUGUST 21, 1985

Morning sitting



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Substitution:

McLean, A. K. (Simcoe East PC) for Mr. Bennett

Clerk: Arnott, D.

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Traficante, F., Research Officer, Legislative Research Service

Witness:

Bursey, J. H., Member, International Trade Committee, Board of  
Trade of Metropolitan Toronto; President, Bursey International  
Consultants

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, August 21, 1985

The committee met at 10:06 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: This morning we have representatives of the Board of Trade of Metropolitan Toronto. Speaking for the board of trade is James Bursey, a member of the international trade committee and president of Bursey International Consultants. With him are John Beck-Hanson and Warren Ralph, but Mr. Bursey is going to be speaking for the board of trade. He is going to make a presentation and has invited us to interrupt at will during the course of his presentation.

BOARD OF TRADE OF METROPOLITAN TORONTO

Mr. Bursey: This presentation will be a little different from some you have heard before. I am not afraid to say from the outset that we are in favour of opening negotiations on some kind of bilateral trade enhancement agreement between Canada and the United States.

We feel that at this point the issue has been rather emotional on both sides and, as has often been stated, really not very much fact has been presented. We will try to alleviate that situation. We will try to present some facts in favour of the position, but we will admit right now that this is not enough. We still need further examination of this topic. We still need to put numbers to how many people will be displaced, if that is to be expected, how many will gain jobs, if that is to be expected, and also what new or old industry will survive or go under.

However, so far the use of the term "free trade" has assumed some kind of free, all-encompassing union with the United States in some of the more alarmist press that we have been reading. We wish to say from the outset that this is not our position. We are talking simply about trade in goods and services between our two countries, period, full stop.

The board advocates a comprehensive approach to trade in services and goods and we want to do it on a bilateral level. We see it as the only approach that can be fairly presented to the United States without leading to problems of balance and symmetry or cross-sectoral conflicts and that, more important, can be presented to the Canadian people as an acceptable and viable alternative.

Before getting into what we suggest under the proposed freer trade arrangements, what is the alternative to freer trade? If we do not go down the path to some closer economic union with the United States, what then is the alternative? We have put together some scenarios for what might happen.



The world trading situation as we now know it assumes a number of things, and Canada within that trading environment assumes some others. We assume, for instance, that Canada will indefinitely be able to export worldwide since, under the General Agreement on Tariffs and Trade, of which Canada is a major proponent and to which it is a signatory, we are committed to a reduction of trade barriers--principally, of course, tariff barriers.

It is also assumed that it is in the best interests of all nations to trade freely in goods and services. This has been amply stated by federal governments during the last 15 years. It is still the policy of our government in Ottawa today.

It is also assumed that all nations will honour the treaties they have signed. That, of course, is one of the main tenets, especially of the Department of External Affairs, in looking for a second round of multilateral negotiations to begin, specifically this time on nontariff barriers. It is an assumption that is very important.

We also assume that, should anything go wrong with the above ideas, we can invoke various rights under the GATT, such as the right to examine the dumping of goods and services into the Canadian economy and the right to have temporary restraints on the importation of certain products. We have done that. We also believe this co-ordinated effort to restrict access to threatened industries will improve the domestic economy. Of course, at the moment we can raise other protectionist actions such as nontariff barriers; for instance, procurement policies of various governments.

The general belief has been that this is adequate. It also is the status quo. In short, we use the framework of international trade that currently exists under GATT, which is the only framework of international trade we have that is not of a bilateral or political nature. In saying "political," I mean the Commonwealth tariff agreements and also the most-favoured-nation treaties.

However, on examining exactly what has been happening with GATT, we at the board of trade have come up with two inherent weaknesses.

First, there is no enforcing agency with GATT; thus compliance becomes both voluntary and subject to short-term political and economic expediency. Witness the United States domestic international sales corporation program, DISC, which was condemned by an international court after six years of rather intense arbitration. That arbitration uncovered so many instances of monkey business by other governments that the handslap the United States got was minimal. It was also totally unenforceable. In the meantime, however, United States industry under the so-called unfair DISC program had been able to gain considerable competitive advantage over its worldwide partners.

The second major problem with GATT is that it addresses only tariff barriers; that is, regulated duties imposed by countries on

imports. It does not address the largest problem we have today in the international trading arena, which is nontariff barriers. If we are to take a look at nontariff barriers, we can straightforwardly take a look at standards as a problem. Japan is currently being quoted by the United States as having almost ludicrous standards for some of its safety, environmental and packaging requirements.

As a country, we have continually considered the Buy America Act in the United States to be somewhat ludicrous. If we also take a look at some US policies, we see where the Highway Reconstruction Act, although not directly aimed at restricting imports, is effectively hurting Canadian and especially Ontario industry. Of course, we are not blameless either; we have our own versions of the same thing.

In short, GATT, the one and only multilateral trading treaty of any significance, is of little apparent use when we see the number of ways in which we can abrogate and ignore that general agreement. We have one rather large problem. I am a practising businessman myself. As members of boards of trade, we are continually being counselled by our federal advisers in various departments to please act within the law of GATT. As a businessman and exporter, it is extremely difficult for me to do so when my West German, French, United States and Japanese competition do not and when their governments support them in circumventing GATT. That is something all Ontario businessmen face.

Experience has shown, therefore, that the barriers to trade are rising worldwide; not the tariff barriers but the nontariff barriers, and those are the most dangerous ones. We cannot export automobiles to Korea. We cannot export lumber to Scandinavia or northern Europe. We cannot export dairy products to the European Community. The list goes on almost ad infinitum.

GATT is looked upon by many nations as a tool to be used when convenient and to be ignored when not; it is normally not convenient. France, West Germany, the United States and, yes, even ourselves in Canada--I must say some Ontario industries also--will support exports with interest-free financing, while at the same time complaining about each other's import restrictions on textiles, steel, urban transportation equipment, wine and any number of other categories. We are not blameless, but we are at the moment probably receiving a considerably larger amount of injury than most other nations. That is quantifiable, so the board of trade feels that even a cursory examination of where we are heading under the current terms of international trade reveals a future that is, to say the least, alarming.

Let us take a look at what would happen to Canada and to Ontario without some kind of free trade agreement. We can predict that if Canada continues on the path it is going now, unemployment will remain at 10 per cent to 12 per cent in what we would call the admitted or published figures, probably higher given various seasonally adjusted ratios. We can see that continuing for the foreseeable future.

We can see continued stalling by major world traders on



reaching agreement on the reduction of nontariff barriers. Already there have been two postponements to the second round of the GATT negotiations and there will continue to be postponements. Even once those negotiations have begun, if past negotiations are any indication, it will be at least a decade before we see any results and they will be very watered down from the original intent.

We will see continued near crises with the United States on access to this market or that market. Eventually, probably just because of the shared number of disputes we will have with that country, there will probably be an escalation to the point where we will be seriously injured. I must admit the cause of that injury may not even lie with Canada. It may lie with a third country, but we will be enveloped in the backlash. We have already seen a lot of that.

What about Ontario? As has been presented to you and various other committees, both federally and in other provinces, there is a potential relocation of seven per cent of the labour force. One man looking to his job today may not have that job tomorrow. He may have to be retrained, but he may not be able to be retrained. There will probably be displacement of older workers, especially those without technological training, women and currently unskilled workers.

Although this is a major argument against free trade, we are seeing it happen anyway. There are closures of US branch plants now going on in Canada. According to a recent study cited this week by the Premier (Mr. Peterson), there would also be a possible loss in Ontario of 300,000 jobs. That is alarming.

We maintain this will probably happen without free trade anyway. It may also happen with free trade. I am quite willing to admit that. While we do not see much hope without some kind of agreement with the United States, we do see some hope, although not much, if we do start negotiations now. We are not looking at a panacea that will cure all ills. It will not. We have a lot of work to do internally, but we may be able to gain something from the United States and, of course, it will have to gain something from us.

Talking more about the United States, what do we know about that country in general? Exports are what the United States is all about as far as Canada is concerned. In 1985, fully one quarter of our gross national product will be based on exports and 80 per cent of those exports will go to the US. Only 20 per cent of our exports will go to the United Kingdom, China, France, Germany, Japan, India, Italy, Sweden and the rest of the world.

We have all our eggs in one very large basket immediately to our south. In very simple terms, take a dollar out of your pocket and you will see that 20 per cent of that is marked, "Courtesy of the United States." Of every single dollar that every single Canadian earns, 20 cents comes from one country. For preservation of our self-interest alone, I hope we can at least consider putting together some kind of arrangement with a market that takes 20 cents out of every dollar we earn.

10:20 a.m.



Given all the foregoing, it is interesting to note certain anomalies in our existing bilateral and multilateral trading arrangements. As mentioned before, we already give preferential treatment to some of our trading partners, the Commonwealth and less-developed nations. It is interesting to note that we balk at arranging something similar when dealing with the United States. It is curious that in our history we have negotiated no general agreement with the country that takes 80 per cent of our total exports and the neighbour that shares more than 3,000 miles of the least-protected border in the world. We trust them with our border, but not with our exported goods.

Therefore, what are we, the board of trade, advocating? We are advocating freer trade, not unlimited free trade. We hope that it can help to make our own industries more competitive and, in the long run, provide a foundation for a more globally competitive Canadian export industry; but there are a number of concerns.

It has been mentioned that Canada is too small to withstand the competitive force of the United States under relatively free trade conditions. Experience has shown, however, that this is not totally true. In the communications industry, automotive parts, steel, furniture and urban transportation industries and yes, even in the electronics industry, Canadian industry has managed to compete where there has been relative free trade. With the United States, given that at present 80 per cent of the goods that travel between our two countries do not have any visible tariff barrier, we have had some notable successes; but we will gladly admit we have had some notable failures. Whether those are due to free trade or whether we shall see continued problems due to free trade, we cannot yet ascertain.

Mr. Chairman: With the auto parts, that is part of the auto pact really, and is not something we could ever get again.

Mr. Bursey: That we probably would agree on. We probably could not renegotiate that one. If we are to take a look at the automotive parts companies that have succeeded, some of them were succeeding well before the auto pact was in place. Magna International Inc. is probably one of the best examples of that. It was well on its way to success by then. We have had some failures, though, even under the auto pact. However, the advantage in which the auto pact is a freer--not totally free but a freer--exchange of goods and services, in general has been beneficial to Canada.

The other thing that is objected to is that this cold-shower approach of relatively opening our borders will wipe out industries currently perceived as inefficient and slow to adapt to sudden change. If those industries are inefficient and slow to adapt to sudden change, they will be adversely affected, but let us not assume that every single industry in Canada is inefficient. They are not. We have some excellent companies here and we have some excellent companies in Ontario.

However, the converse is what we were advocating until about the last 15 years--that is, until we entered the last GATT round--and that was some kind of protectionism. It was the basis on which a lot of our economic base was developed.

If we take a look at the Canadian textile industry, which is admittedly not totally in Ontario, 12 years of very protracted and very well crafted protectionism still has not turned that industry around. Even though there have been continued renegotiations and calls for protectionism--and every time this comes up the industry says, "Yes, we will within five years modify ourselves, modify our products and invest in plant and equipment"--in general, the industry is still uncompetitive.

We do have evidence to suggest, therefore, that protectionism is not helping those industries that are beleaguered. We do not have much evidence, however, to say that the opposite, a freer trading environment, would hurt them.

Mr. Chairman: You are saying it would not hurt them?

Mr. Bursey: Not necessarily. We look at two things. If you or I own a firm and we face a competitive environment, we have two things to look at. We can run to the government for protection. If that fails, we have two choices. We can either go out of business--and that may be not a bad idea in some cases; we may save our capital and invest it in other areas--or we may have a sufficiently solid foundation in our business to invest in new capital equipment, if that is necessary, to retrain, or, as has been the problem with the automotive industry especially, we may have to renegotiate some of our labour contracts. Labour may be more acquiescent if it feels the government is not necessarily behind it in protecting the jobs.

In a lot of cases you can compete if you really have to. It will hurt. You may not have quite as much profit as you had previously, but you can survive and compete. Over the long run, if you manage properly, you can prosper.

Mr. Mackenzie: Surely you are not suggesting that most of it would survive without this. From talking to some of the people I know in the industry, there is a classic example in the shoe industry, which has a fair number of people employed, but certainly would not survive. There are a couple of thousands in my own town in that. We had a very good case presented to us by the packaging industry yesterday that they would not survive. Those are just three examples right off the bat where there are a good many thousands of workers involved who are depending almost totally on what protection there is there now.

Mr. Bursey: Yes.

Mr. Mackenzie: There is no way they are going to compete, given what we know at the moment in any event.

Mr. Bursey: The whole industry will not be wiped out. Maybe in some specific instances and maybe in your riding, yes, there will be considerable dislocation. That may happen with or without a freer access to trade.

The other thing we have to weigh is what the cost is going to be of propping up that industry. In that particular instance,

it is probable we would lose jobs. However, there are other areas, and maybe at this point I will diverge a little bit from our presentation and point out that the steel industry has tremendous promise under a freer trading agreement with the United States.

This comes from work which as a consultant I have been doing over the last three months, but it is very safe to say we could take double the volume of exports to the United States; that is, we could double our penetration into the United States in about 12 months, if we can gear up that fast, because its steel industry is totally uncompetitive.

Mr. Mackenzie: Given the threats that are already there and the threats our steel industry raised about some of the dumping practices from other countries, we would certainly initiate action almost immediately if we were being threatened now by the United States, were that the case.

Mr. Bursey: That is right.

Mr. Mackenzie: There is a real fear in the steel industry, if you have been doing some work in it, in maintaining what we have, never mind the expansion, although certainly we have the productive capacity and the expertise to do better.

Mr. Bursey: I would think in any negotiation we would have with the United States, and we are talking here about the United States and not the rest of the world, there would be some kind of accommodation made between the two industries and, therefore, there may be some exclusion to those international industries, notwithstanding what agreements we may have with GATT, and that is an issue we would like to tackle a little bit further down the road.

If we are talking in Canadian and United States trade terms, there are some areas where the United States would export to Canada, most notably in rebar products and some specialized flat roll products, such as automotive sheet, which it is already doing anyway.

Mr. Mackenzie: There is also fair turnaround just beginning in terms of the smaller steel operations of the United States, as you are probably aware.

Mr. Bursey: Yes, there is, but the larger ones are--

Mr. Mackenzie: The big plants are gone, but they may very well end up being a hell of a lot more competitive with some of the moves to some of the smaller, more integrated operations.

Mr. Bursey: We really have a very good lead time, however, in Canada. As you know, Stelco has excellent products and so does Dofasco. Even Algoma, with its recent troubles, is still much more competitive than about 80 per cent of most of the mills in the United States with the exception of specialized electric furnace mini-mills, which have a very limited product capability range, which is something Canadian mills are not limited with.



The other thing is that we do have other capable steel producers in Canada, but as far as Ontario is concerned, we have the bulk of the steel industry and we could export a heck of a lot into the United States if we can get around the protectionist sentiment in the United States Congress and Senate, which would have to be a precursor to any trade enhancement agreement with the United States.

Mr. Mackenzie: Let us take a pretty good look at how they are going with the mini-mill operation because there is one hell of a lot of feeling that it is part of the answer in the United States.

Mr. Bursey: Part of it, but it cannot do everything. Without getting too much into the argument with steel, there is a technological problem with the mini-mill, and that simply boils down to the fact that it is based on electric furnaces and it is based on scrap production. You cannot produce the high carbon steels which you can use from a blast furnace.

We have some excellent and some of the most modern blast furnaces around and we can probably dig up 60 per cent penetration into the high-quality steel market. That has a very high value-added in it. It is a very specialized kind of production, and we are capable of doing it. We have the energy and the iron ore and we have the plants already in place and the United States does not.

Mr. Mackenzie: Are you telling us from your information that if we had the steel industry before us today, they would be arguing for free or freer trade? I notice everybody hedges off the free trade argument because I think it is just plainly obvious it will not wash as a straight argument without qualifications.

10:30 a.m.

Mr. Bursey: With certain qualifications. Let us say if we are talking about a freer trade arrangement closer to the automotive pact, maybe if we are talking about specific sectors such as steel, I think if they carefully did their homework, they would see there is a tremendous advantage in some plants--not all--in some product ranges.

If we take a look at one company in particular, Stelco, it is using a process that has a tremendous amount of flexibility for some very basic products. They are not currently competing directly with some of the Japanese imports, which they could. They have the technical capability. The price structure is in place. You would have to ask Stelco representatives directly why they are not doing it.

Mr. Mackenzie: They are just in the process of beginning to replace the entire basic steel operation in Hamilton. That is going to take a while.

Mr. Bursey: It is going to take time. I do not think we are suggesting a steel or any other trade enhancement agreement

would take place overnight. It would be staged in, certainly. Even during the period of negotiation there would be some kind of staging.

In summary, yes, the steel industry can do very well in the United States.

Mr. Mackenzie: That makes it imperative to have some of the basic steel companies before this committee, if we have not already made arrangements,

Mr. Chairman: Yes.

Mr. Morin-Strom: However, it seems the steel industry is primarily interested in the protectionist measures being undertaken by the American government with respect to restricting the number of imports and trying to enforce a quota on us. Tariffs generally are fairly low on most steel products already. It does not seem the issue in steel is a freer trade agreement as much as defending our current access to the US market and providing safeguards against the protectionist sentiment that is building up in the United States.

I wonder why you think we have to have a freer trade agreement in order to prevent protectionist action by the United States in this industry and others as well.

Mr. Bursey: As we explained earlier, freer trade does not only cover tariffs. More specifically, generally and much more importantly, it covers nontariff barriers. The 66 representations and potential bills before the House of Representatives and the Senate in the United States represent some of those, which a freer trading agreement would, it is hoped, be able to negotiate, or at least some kind of treaty would forestall their application to Canadian industry. What we are talking about in that respect is definitely within the purvey of a freer trading agreement. It is nontariff barriers we are worried about, not tariffs.

You are right. Other than Canada, which on some products has up to a 17.5 per cent tariff barrier on the importation of US steel products, in the United States we average between zero and four per cent. That is not the issue. The issue is that we are looking at protectionism increasing in the United States. The United States Highway Act has seriously hurt Canadian steel producers. We also have to consider buy-American policies, both stated and unstated, within those states, federal procurement agencies and also within some US companies. I include the auto industry among those. That is what is hurting us, and those are nontariff barriers.

Mr. Morin-Strom: So do you see the issue as being the legislative moves being undertaken within the United States?

Mr. Bursey: Partly, yes.

Mr. Morin-Strom: Or are they things that have already happened legislatively within the United States?

Mr. Bursey: Both.

Mr. Morin-Strom: Meanwhile, the United States has arguments with Canada regarding legislative provisions we have made, for example, the stumpage fees in British Columbia, which they claim are to the advantage of Canadian producers.

Mr. Bursey: Nobody said this process was going to be easy.

Mr. Morin-Strom: There are other areas of labour, environmental and health legislation in Canada which the Americans may view as putting some of their industries or companies at a competitive disadvantage.

Mr. Bursey: Absolutely.

Mr. Morin-Strom: Are you suggesting that, in return for our getting concessions on their legislative proposals, we should be giving up some of the social, health and environmental programs we have in place today in Canada?

Mr. Bursey: I did not say social, health and environmental programs, but certainly we are going to have to trade off something. What that will be will have to be up to the leaders of this province, the other provinces and the federal government. What exactly will be traded off, what exactly the Americans are interested in, will come out only once we have entered into some kind of negotiation. Yes, we will have to trade off something. What that will be and what we will be prepared to negotiate are at this time very undefined.

Mr. Morin-Strom: Could they be the kinds of things we might have traded off in the Foreign Investment Review Agency and the national energy program, which have been given away at this point without any benefits back to Canada?

Mr. Bursey: Your argument seems to imply two things. One is that we are talking about some kind of political discussion here between Canada and the United States. Yes, we are all well taught that economics and politics are two separate things. We are trying, however, to draw a very fine line, and it may not be drawable in some instances, between trade--that is, the trade in goods and services--and the political issues, which would include health, safety, environment and some of our agricultural price support boards, which also exist in the United States, by the way.

The thing we would maintain is that every time the issue of freer or open access to trade comes up and what the United States will or will not accept, we are dealing with two things. One, we are dealing with surmise on the part of the United States. Yes, there have been some indications by certain individuals here and there. Still we do not know what they are talking about, because they have not started talking. We in Canada are really the only ones carrying on this argument at the moment.



Second, though, and more important, we can always walk away from a bargaining table. We can always say before opening discussions, "There are certain items that on either side of the border we will agree not to discuss." This is a rather common thing in trade negotiations; it is a common thing in labour negotiations. Why should it be any different between Canada and the United States? There are some things we do not have to discuss. But if there is still room for mutual advantage, if there is still room for trade enhancement after that process has been established and delineated, then let us go ahead:

What we are asking for at the board of trade is not so much a blanket statement, "Yes, let us go for free trade and run down the railway tracks." We are saying simply: "Let us open discussions. Let us see what they have to offer. Let us identify what we are willing, if you wish, to lose and let us see what we can gain." If we do not talk about that, we do have a lot to lose without any apparent gain.

Mr. Cordiano: The problem in planning some of the areas that we could perhaps trade off is that it becomes very complex and very fuzzy to quantify some of these areas. As of yet I do not feel that we in this committee have seen anything, nor have I seen anything anywhere else, that would indicate how one is to proceed in negotiating. I think the decision-makers in this country will be hard pressed to find in some of those areas that they can make good, effective decisions based on some real, hard facts. This is part of the thing we are struggling with in this committee. If we were to enter into negotiations with the United States in the very near term, we could find that we are not sure what we are dealing with.

Mr. Bursey: I agree with you wholeheartedly. There is a comment that I will probably make as a personal comment and divorce myself from the board of trade at this point. It is not because it does not hold that view; I just have not cleared it. It is that we are probably engaged in these committee hearings, we are probably engaged in the national debate, long before we have any statistics. Really, we are doing this process about a year ahead of time. There are many reasons we are doing it; we need not go into them. Frankly, from a statistical point of view, we just do not have any figures.

Mr. Chairman: You are not suggesting that we should be jumping in before congressional election year or anything of that nature.

10:40 a.m.

Mr. Bursey: Let us put it this way. There are two ways in which we can jump into this thing. We can press some kind of agenda and we can aim for some kind of conclusion timetable before or around congressional elections. We can also go into some kind of negotiations with no preconceived timetable. There may be advantages to either one. Certainly in the latter--that is, with no timetable--we can do two things, which we may have to do anyway, no matter what we are talking about.

One of those is increase our visibility in the United States. We have all trotted out the old statistics of how many congressmen and senators are even aware of where Canada is, never mind how important it is to their trading relationship. Those statistics came out three years ago and they are almost the same now. Japan is all you hear talked about in the US, with exceptions in specific industries, notably, steel, automotive and lumber, where you hear of Japan and Canada as equal enemies.

When we are talked about in the United States by leaders of industry and state governments and federal governments and federal bureaucrats, we find we are generally lumped with, shall we say, problem causers for the US in certain industry categories. This is, first, because of a lack of knowledge and, second, because we have not done a good enough lobbying effort as a country. We have not told them how important we are to them and they are to us.

Let me trot out some statistics. We know how important they are to us, but did you know we are the single most important trading partner for the United States? We buy twice what Japan buys from them. We know it, but do they know it? Not the great majority. Whether we are talking about free trade or not, and again I refer to your comments, this is something on which we are going to have to do some kind of a selling job, no matter what happens.

When we get back to the issue here, we are dealing for the moment with conjecture. Although our presentation gives some statistics, it is still dealing mainly with conjecture. The excellent presentation by Mr. Patrick Lavelle of the Automotive Parts Manufacturers' Association of Canada was also dealing on conjecture, as was that of the Canadian Manufacturers' Association.

There are very few people with the resources, other than our provincial and federal governments, to take the time and put the effort and the money into delineating job by job what will survive and what will not under various scenarios. That is going to take a heck of a lot of time and money. We are not prepared yet.

Mr. Taylor: How accurate might that be?

Mr. Bursey: I could make rather a nasty remark and say that depends on the consultants you employ. Let me take a look at the Ontario government. I know the Ministry of Industry, Trade and Technology in some sectors has already begun literally toting up the statistics, the gains and the losses, both by jobs and by income.

There is a problem with gathering any information. You can gather information in secret, but the only problem is that people tell you what they think you want to hear. The same problem arises when you gather information publicly as here. People will always tell you one side of the equation. To the best of anyone's ability, we will probably have about 75 per cent accuracy. That means a lot could still fall through the cracks, but that is the best we are going to do anyway.

The other problem is that if you want to get that extra accuracy, you have to spend a lot more time, a lot more money and a lot more manpower. By the time you get 99 per cent accuracy, the first 75 per cent you got may be totally out of date.

It is the old statistician's problem: how much data do you gather? We have a long way to go as far as gathering statistics is concerned. We can gather directly from industry, but government's role is to be able to talk on a very confidential basis with individual companies and industry leaders.

Mr. Taylor: Do you have any concept of any studies in this regard?

Mr. Bursey: Without naming them, yes, I do.

Mr. Taylor: You have indicated the concern I have, that it is difficult to find out what is being done or what is being discovered or what the trends might be. Here we are suggesting a study of our own which might be meaningless in the whole realm of things or it might be of some assistance in one area.

I wonder if you have a notion of the type and depth of studies that are being undertaken or might have been undertaken but not published.

Mr. Bursey: Not as a member of the board of trade--I want to make that perfectly clear--but as a consultant, I have been looking for some of these jobs myself just as a matter of information.

There are eight provincial governments at the moment that are probably about 10 per cent of the way along the road of collecting the statistical data but have not made any preliminary analysis. The two exceptions are Prince Edward Island and Saskatchewan.

In the federal government, in the departments of External Affairs, Regional Industrial Expansion, Transport, Communications and Energy, Mines and Resources, each one is doing its own survey, both of its related industries and the impact industries that relate; that is, the directly responsible industries and those industries that impact into a specific area. External Affairs is trying to cover the whole economy, as is DRIE. Their databases differ; some is material based on Statistics Canada data and some is original research material, which means essentially knocking on doors and asking people, "What are you going to do if?"

So yes, there are studies ongoing. Their status at the moment is that they are being done internally. There are, except in two cases, no outside consultants doing the job; so they are relying on staff that has limited manpower resources. It is going to take time. In no case will any of those studies be anywhere near complete or the analysis be done before the end of this year. That is roughly the status of the studies at the moment.

Miss Stephenson: Will they be completed by the end of next year?



Mr. Bursey: I hope so.

Miss Stephenson: Some sections of the International Trade study, I believe; not the complete study.

Mr. Bursey: Yes. Some are already available. That is dependent on a lot of industry association data that have not been verified.

Miss Stephenson: Would it be rational to suggest that negotiations--not negotiations but discussions; perhaps we should make that very clear semantic distinction at this point--should begin at this time to determine what the United States is likely to develop or likely to present as its attitude or bargaining position or front, whatever you want to call it, so we have some idea about what we are going to be up against before we start the difficult task of negotiation.

As you have suggested, it will probably take something close to a full period of 10 years to accomplish this at any rate. If we wait very much longer, I am concerned that we might allow ourselves to trickle down the drain. We have heard of all sorts of trickle-down theories. I think this one has a lot more potential than any of the others to trickle down the drain before we begin any discussions with them.

Mr. Bursey: As an indirect way of answering your question, one of the things I have noticed this country is very good at doing is bouncing back and forth on both sides of the issue and literally negotiating with itself before it ever gets to the bargaining table. In some cases we are very good at it, and in other cases we totally miss the boat.

In the United States at the moment, free trade with Canada ranks somewhere along with the importance level of erecting totem poles in all national parks; it is not perceived as a major potential. The Japanese, the European Community, potential congressional elections, internal agricultural policies and specifically problems with British Columbia lumber are all much more important.

I have talked recently to approximately 130 senators and congressmen. About 25 per cent of them were even aware of the debate going on in Canada, never mind whether they had any opinion on it. Generally, most of them were neutral; they said they had not even thought about it. So that is a problem.

Here we are giving a lot of national importance to an issue we have raised with only one sector of the United States, and that is the administration. Some very high level discussions have begun between the President and the Prime Minister. They have both appointed people who are responsible for furthering the argument.

Canada seems to have jumped on the bandwagon a lot faster than the United States has. For us it is a major issues. At the moment, for the United States, it is not. I would go back to our previous argument that the reason it is not is that they just do not know very much about Canada. That is a problem we have to overcome. It is going to take time.

Miss Stephenson: Neutrality is less the operative word than total ignorance.

Mr. Bursey: Total ignorance, yes.

10:50 a.m.

Mr. Mackenzie: I have some difficulty with the whole area, because what we are trying to do, what the committee was set up to do, could be one of the most important things we are dealing with in the country and in the province; yet I am not sure how relevant we are going to be.

I raise this with you in spite of the importance we talk about with this and the lack of information--my colleague Mr. Taylor raises it time and again--and the need to know it and to know what studies are going on. I wonder, is it the figures that are of concern? Obviously, we want them; we want to be informed of what the results are likely to be. However, to refer to an earlier remark, if I heard you correctly, economics and politics are directly related and are not separate.

Do we want to open up the topic of what we might have to trade off? Is not the real issue what kind of policies, industrial strategy or political program we are looking at in this country, and not necessarily exactly what the figures tell us?

Opening up the nontariff arguments perhaps means we have to take a look at some things. Specific social items have been raised by some US congressmen and senators--everything from our environmental controls and workers' compensation programs in this country to our universal health care system, which on first glance the average person probably would not connect with the whole trade issue or with what some of the tradeoffs might be.

If we are going to look at GATT, not just at the percentages or figures in terms of trade but also at the nontariff barriers--and these all get lumped in--I have a serious question as to whether it is worth opening up that kettle of fish.

It seems to me that if we have not decided what our national interest is and what we want to maintain a real Canadian identity and ability to compete or even to live if somebody pulls the rug out from under any agreement five years down the road, then we should be deciding exactly what our industrial agenda is in this country, and the figures be damned as to whether we might do 10, seven or six per cent better or worse in terms of the trading issue itself. We are obviously always going to work on trade in specific areas.

I guess that is one of the things that is rubbing a little in my craw: exactly what are we opening up?

Mr. Bursey: Personally, and I think representing the board of trade too, I am glad you raised that issue. We raised that in response to Mr. Kelleher's initial paper, which came out at about the beginning of this year. We submitted a response to that. Given that you have now raised the question, the board of

trade would be happy to make its response to that available. We did not bring it today.

What you are doing is opening up a wider agenda on three broad issues. Do we even want an industrial policy for Canada? If I am to refer to our effective leader in this economic area--and that is Sinclair Stevens, whose responsibility it is at least to articulate some questions--the door is closed on talking about industrial strategy or industrial policy.

Mr. Mackenzie: We found that out in the Canadian Porcelain case in Hamilton. It was, "To hell with you."

Mr. Bursey: I do not want to get into the theoretical political arguments for free trade in general or anything like that but, speaking strictly from an administrative point of view, the door is closed in Ottawa at the moment for discussing some kind of national policy.

The other thing we have is multinational trade negotiations. As I have mentioned before, these affect our total trading environment, not just with the United States. What we do there is going to affect what we do with the United States, whether we realize it or not.

Let us take a look at some items where multinational negotiations or broader trade negotiations the United States has done have affected us and we have not yet realized it. One of them is the Caribbean basin initiative. My personal opinion is that this is one of the most dangerous pieces of legislation for Canada that has ever come out of the United States. I have never heard anybody talk about it.

The Caribbean basin initiative effectively allows goods to come in directly from the Caribbean, where they have lower labour rates. Those are goods we manufacture here in Canada, with high labour content and relatively medium and low technology. Looking strictly at dollars and cents, and let us remember money has no nationality, we as the manufacturer would go right down to the Caribbean, assemble the products there and pump them into the United States rather than do it from Canada.

That is just one of the multinational issues we have not addressed. Then we get to the narrower focus of what this committee is all about, and that is talking about some kind of relationship with the United States. All of it relates; so where do you start? It is not my position, but it probably is yours, under some form of discussion when I am not present, to decide what the policy agenda is going to have to be. If it comes down to suggesting that first we need some kind of national industrial economic policy, then the board of trade will be right behind you.

Mr. Chairman: Mr. McFadden, did you have a question?

Mr. Bursey: Ask the question at this point, because my notes are going to be ditched in a matter of minutes.

Mr. McFadden: I have a question with regard to the



service sector, and I guess this would be of special interest to Metropolitan Toronto and the Board of Trade of Metropolitan Toronto. In recent years the primary engine for growth, certainly in Toronto, has been the service sector, everything from the financial institutions to management consulting and insurance; you could work through the whole range of things. My review of the figures would indicate that the reason Toronto has enjoyed, even through the recession, a relatively lower rate of unemployment than other areas of Ontario has been the relative strength of our service sector.

In the discussions on free trade, sectoral free trade or trade enhancement, where undoubtedly services are going to come up, Reagan has proposed that services be added to the next GATT round. What is your view on the impact on the service sector? I know in the report here--I think this is the one to the federal joint committee--you did make specific mention of the service sector and said it might create some additional jobs in Canada as American companies might set up here.

What exactly would you see being included with regard to the service sector in any discussions on trade enhancement in the sense that this is a new area? When we have talked about trade enhancement up until now, we have always thought about commodities. Since this is such an important area for Metropolitan Toronto, I am concerned to know where you see that kind of discussion going and what might appear to be to Toronto's and Ontario's competitive advantage for discussion.

Mr. Bursey: I am delighted to answer that question. We have looked at this. There are three things about the service sector that one should know of anywhere in the world. One is what you might call the management control aspect of it. Another thing is that the service sector is primarily people--it is highly labour-intensive--and these can be of any calibre.

If you talk about cleaning services, there are massive companies in both Canada and the United States which use very unskilled labour for cleaning services, but these people are employed and they are doing a useful service. Conversely, if we look at special technical maintenance and equipment, etc., that is a highly trained and highly skilled field and, again, there are massive companies in that area.

There is also what you might call a medium-technology area, in which the city of Toronto especially is very interested, and that is tourism.

Looking at all those areas in general, we then can divide up the industries and say something about all three of them. There are the idea innovators, the managers; that is one group. Then there are those people who carry out the service, and there are supplementary services which revolve around the primary service; there are a lot of people involved in this.

Let us think about the service industry, especially for a country such as ours with high unemployment, because it takes people out of the unemployment category. It is not like

manufacturing where you do a very simple equation and say: "With three workers I can put in a machine for \$150,000 and amortize it over five years. Yes, I am going with the machine." You cannot do that with the service industry. It deals very much on the personality of people.

What would happen with the United States? Two things. One, we would see trade on both sides for what we call the managerial innovators. In the specialized restaurant trade, we would see some increase in the lower categories there. We are talking now about the mass franchisers; we may be talking, for instance, about Marriott Hotels, Ramada or whatever. Those are a lower kind of food service, restaurant, hotel, tourism attraction.

11 a.m.

The other kind of thing we see Canada being very good at is in things such as consulting engineering in areas such as urban transit development consulting. That employs a lot of people, not people to construct the actual infrastructure of urban transit, but the engineers, the planners.

To give you a specific case, the city of Toronto has one of the most advanced urban transit systems in the world. It is flooded yearly with people from all over the world. It has had missions from China, Norway and many parts of the United States, literally from all over the world. Every year people come to find out how it is done. They are always interested in the context of, "Can you teach us?" That is a very labour-intensive job. We need that kind of export. We could see that occurring with respect to the United States much more than now because again there are numerous nontariff barriers to our exporting those labour services.

In general, while the United States may be selectively opening the discussion on trade in services, we are going to gain. We are going to gain because in the lower-technology service areas, you do not transport people across national boundaries; you hire locals. It is simply a rule of thumb. It is too costly to send a janitor from New York to Toronto; you may as well hire a Toronto janitor, but you teach him whatever systems make that janitorial service work.

On the other hand, Canada has some very specific expertise, as does the United States. That trade would probably be about equal. For instance--some of this is related to Ontario industry--in the telecommunications area, especially in fibre optics technology, we have the adaptation of communications over large and relatively uninhabited populations. We have those services and skills available and are trying desperately to sell them. We have run up against some very tough barriers, and in the United States some extremely tough ones that have nothing to do with monetary values.

To answer your question, we will gain generally in the services industry, because we can export the high-technology services and while we will be importing the management and organizational ability, the low-technology services, the labour that carries out those services will be Canadian.

Mr. McFadden: Not wanting to belabour the point about studies and so on, are you aware of any reports that would follow through with what you have been saying of which this committee could have the benefit, or is it based more on your collective experience with respect to people you have talked to and so on?

Mr. Bursey: That was based on about 15 hours of discussions among about 12 people. I do not know of any one report that covers it. I know of a few areas--

Miss Stephenson: The Urban Transportation Development Corp., in its consulting capacity with Toronto, has a paper that covers some of these areas.

Mr. Bursey: Actually, you might want to see the director general of United States trade. External Affairs has a specialist in transportation policy, and he is very knowledgeable about the industry. Also, you might want to talk to the Innovation Development for Employment Advancement Corp.; they have some transportation specialists there.

Two people within the Ontario government who might be very knowledgeable would be Jan Rush, who is in the Ministry of Industry and Trade, and John Ardagh. I am sure they are doing similar studies internally. They would be good sources.

Whether any one definitive study of the services industry exists at this point, I doubt it.

Mr. McFadden: However, the service sector would strike me as quite complex, in the sense that we would have to know what we were after, because you are mainly dealing here with nontariff barriers. They have to be quite specific and go sector by sector, or subgroup. I imagine there are state nontariff barriers as well as national nontariff barriers we have to deal with. In my experience there are, anyway. It would be a fruitful area of study and negotiation, but it probably would be quite complex. From what you are describing, it could be at least a valuable area to explore.

Mr. Bursey: What you are effectively doing with service industries, especially what we might call medium- and high-technology ones, is exporting unemployment. That is what you are doing. Our previous presentation to the Hon. Mr. Kelleher addressed that specific issue. Maybe as part of our multilateral negotiations or of an industrial trade policy, that should be incorporated into whatever we do in this country, no matter what we are talking about with the United States.

The exporting of unemployment is a tactic that is being used very successfully by other countries. It should be used very successfully by ourselves, too. We have the capability to do it.

Mr. Mackenzie: You have to think of America though. I do not deny the value of it, but if you are looking at what we have discussed in the transportation field or in engineering expertise, I suspect there is some dollar value involved in it which is always useful. But with respect to numbers of people employed, you



are not going to increase the complement of engineers, transportation experts or what not, to that extent.

Mr. Bursey: Let us take a worst-case scenario, which is Atomic Energy of Canada Ltd. They are facing the layoff of almost 10,000 very well qualified, highly skilled engineers, who have engineering capability. Some of that is general and some is very specific, admittedly, but the great majority of them have the basic skills to adapt to newer technologies or more differing technologies. One cannot say that the new types of technology are the whole technology. But one of the things at which you might be looking is not so much increasing the employment rate, but decreasing unemployment, and I am taking a look at it from the other side. Try and forestall some of that unemployment.

If you take a look at the unemployment statistics both in the province and nationally, you will notice that in general it is not unskilled people who are unemployed; they cover a broad spectrum. Many of us can count the senior managers, engineers and even lawyers who are unemployed. We all know somewhere along the line a PhD who is driving a taxi, who has some skill that we could export. What we have failed to do as a country--

Miss Stephenson: I have met only one and he did not have exportable skills--it was in medieval history--although he might have been exportable.

But there is spinoff, it seems to me, from the consulting activity which is something that we do not seem to consider as frequently as we should. That is when a Canadian or an Ontario consulting firm is perceived as an appropriate planner-consultant to any government, and I am not just talking about the United States. There is real potential for sourcing in Canada or in Ontario for the materials that are going to be necessary to do the job for which he is planning, or she is planning, because there are a significant number of female engineers who are doing a damned good job now. It seems to me that kind of spinoff should be a part of our examination of service industry export.

Mr. Bursey: Let us also look at the service industry export, and it is not only in consulting. It goes much beyond that; for instance, general management. We all, I presume at some point, have at least seen a Keg Restaurant. To set up one of those is a considerable export of Canadian talent, because it is a home-grown, exportable idea that will be franchised in the United States, if they can get it off and running. There are problems right now with the Farm Credit Corp. and various franchising regulations have to be overcome, but that is just one instance of a Canadian idea that can be exported. The service area has tremendous potential but, again, we have no numbers.

Mr. Cordiano: Earlier you mentioned the national industrial strategy, of which you say the board of trade would be in favour. Is it imperative that we have a national industrial strategy in order to ensure the success of a bilateral trade agreement? What is your feeling on that? I am trying to determine whether or not that kind of industrial strategy, which is comprehensive, would enable us to have better insight into what

our economy is doing as far as bilateral trade and negotiations for bilateral trade are concerned.

Mr. Bursey: I do not mean to be obtuse, but maybe we could ask, "Do we really have much of an understanding of how our economy works even now, or how it could work?" If the answer is no, then at a minimum we should gain out of the planning stage of a national strategy the understanding of how our economy works.

I do not think we would all be here today if we really understood how our economy works; neither would this be happening across the other nine provinces or with the federal government.

Mr. Cordiano: Surely, it is an ongoing thing.

Mr. Bursey: Yes. That is the other part of it. What is a national strategy? We invariably hear of the Japanese as the best national statisticians. They have a very flexible way of doing it, they look at it sector by sector but they also take a broader view. It is not a process that you develop overnight. That is something they have been doing ever since the end of the Second World War and, some would argue, long before.

Mr. Cordiano: It is very particular to their own culture and how they have developed.

11:10 a.m.

Mr. Bursey: I would argue that one, but I do not want to get into that discussion right now. But no, it is not.

Mr. Mackenzie: They have a flexibility to respond almost immediately to the problems they are running into and what they want to do in terms of their people.

Mr. Bursey: It is not perfect either; they have their own problems. However, it may not be quite as bad as what we are facing today; therefore, if it is any improvement, it probably bears looking at.

Out of the discussion of a national strategy or some kind of national industrial policy, at a minimum we would gain a clear understanding of where we are now and what the options are for the future. After that, it is open discussion.

Mr. Mackenzie: That is why, if we go ahead with the process we are following, to use Miss Stephenson's phrase, we are liable to trickle everything away before we know exactly what we are doing.

Miss Stephenson: I am not suggesting that we negotiate anything. I am simply suggesting that we sit down face to face, or begin the process of talking, in order that we can understand what it is we are going to be facing, which is what we do not know at the moment.

Mr. Mackenzie: Does that come first, or do we know what we want to do as a province and a country?

Miss Stephenson: It seems to me we have had, if I may call it, a sub rosa, pragmatic industrial policy in this country which has been peripatetic in nature. There has not been any understanding that we are a totally free enterprise society in Canada for a very long time; for more than 125 years, as a matter of fact.

We have understood there are areas in which there must be co-operative effort and co-ordinated activity related to both the private and public sectors. We have done that. We have not put it down on paper; that is all. I am not sure the Japanese have put it down on paper either; they have simply managed to keep it in their minds in a little more crystalline fashion than we have for quite some time and have practised it a good deal more effectively than we have.

I have the feeling we are sort of babes in the woods in this whole area of international trade, whether it be with the United States or any of our other trading partners. I would like us to begin some kind of practice that would develop some expertise within our Canadian capacity so we are not quite as inept when we come to the next full round of multinational negotiations as apparently we have been in the past. I do not think we have gained a heck of a lot in the past negotiations. I think we have lost. Part of that has been due to the fact that the people we send are people who are like us: they do not know what is going on.

What we should be doing is helping all of us to find out what is going on, to learn more. We do not have enough information. We can tell all our economists to go fly somewhere if they do not start doing something about it, but we have to begin the whole process of national awareness of our dependence upon trade and world dependence upon trade. We are not living on an isolationist planet any more; we are living in a global village. We have to understand that. Canada can protect itself if it wants to, but it is going to do that to its detriment or its own destruction, it seems to me.

Mr. Chairman: A good example of that was our involvement with regard to urban transit in the previous GATT negotiations, was it not? It was something we had on the table but it got swept off the table, perhaps because we were not swift enough.

One of the things that keeps bothering me--in fact, it was put to me by a member of the US administration--is why we do not make a proposal to talk about complete free trade to begin with and then work out the rules later with the United States.

Miss Stephenson: We do not even have to define it that way. Why do we not just make a proposal to talk about trade in a general fashion rather than reacting to the kinds of things that they persist in doing?

Mr. Chairman: But in reaction one has to ask, why does the United States not make a proposal to us? Then we might well be in a better bargaining position. However, you are presenting a very good argument on that score; maybe they cannot be bothered.



Miss Stephenson: They do not even know where we are.

Mr. Bursey: They do not even know we are here. That is the problem. The problem is simply that they look at Japan and at the very publicized destruction that has happened in their automotive industry. We may argue ad infinitum whether or not it is their own fault; it does not matter. The point is, it has happened. There are unemployed auto workers all over the United States, and there are a heck of a lot more Japanese cars on the road now than there were 10 years ago. That is problem number one; it is very visible.

How many Canadians do you see wandering around Washington with flags on their backs? How many Canadian cars do you see? You do not see any, because you do not even know they are there. Half the big cars sold in the United States are made in the Oshawa and St. Thomas plants, but you do not know they are Canadian; so you do have a problem. However, you do know that the Toyota is a Japanese car. You know that Honda is a Japanese car. It is a problem, and a very visible problem. That is the nature of our relations with the United States. We are truly the invisible partner.

The other thing, though, to answer Dr. Stephenson's comments--other than to invite her to join our committee as a spokesperson, because that is what we are advocating, in a nutshell: let us study the matter--I would like to return to the point on negotiation. Yes, we need an industrial strategy, but there is another element that we have not introduced, and that is time.

We all know we have a lame-duck presidency coming up in 12 or 13 months. Those last two years are going to be extremely difficult for Ronald Reagan, health notwithstanding. They would be very difficult for any president in that situation.

The other thing is that there is very well-organized and well-researched protectionist sentiment in the United States that is aiming principally at Japan, Korea, Spain, Brazil and Venezuela but also includes Canada. We are getting caught in the net. We all know that; it is nothing new. But what are we going to do about it?

There are two things we can do. We can start our own lobbying effort in Washington. Having had experience in the United States ever since I was about four or five years old, having lived in the United States and having lived with a Canadian diplomatic family, I would say that our Canadian diplomats are personally very uncomfortable with doing a lobbying effort. That is not the diplomatic way. Whether this is the right or wrong decision, the reality is that people who are charged with informing the United States of our position are, personally and by training, uncomfortable doing it.

The next thing you have to ask is what kind of policies they are going to recommend. They are going to recommend policies that are comfortable to them, because they are going to be the ones who have to carry them out. That has been the slow, careful approach, the one-on-one chatter with a few key congressmen and senators,

and that has got us nowhere so far. We would not be having this discussion if it had got us somewhere.

The other alternative is to go as a national government to another national government, the United States, and begin official negotiations. At the board of trade we think yes, because the other area has failed. But there is a third option, and that is doing both those things simultaneously, which we would also advocate.

We have to stop being meek and mild. With all due respect to Lester Pearson, the professional diplomat in the United States gets swept under the cover, especially in a society that, as we well know--and ours is very similar--is dominated by media that are interested in hot issues. Canada at the moment in the United States ain't a hot issue. We are not even an issue.

Mr. Chairman: This raises a question that has sat on my mind from the beginning of your submission. You started off by saying that you or your company had personal experience of the United States, among other countries, ignoring GATT. In fact, companies in that country are ignoring GATT with the active assistance of the administration.

Mr. Bursey: I would not call it active; I must call it passive. You can get passive assistance simply if the United States refuses to slap you on the wrist, whereas the Canadian government very definitely will take a very strong view of a Canadian businessman trying to do the same thing.

Miss Stephenson: Or a Canadian provincial government trying to do something, I can tell you.

Mr. Chairman: The brief you initially gave to the federal committee suggests that Americans may have had an object lesson in trading integrity in viewing the Japanese voluntary restraints on automobiles.

Mr. Bursey: I would not say it is an object lesson. I would say it is learning how to run the rules of the game.

Mr. Chairman: That is not terribly comforting in trying to persuade us that the Americans are going to obey the rules if we get into this down the road. They have a constitution that permits their Congress to pass a law that might well exclude us at any time the going gets tough. Once their attention is on us, they may well start thinking about things like that.

11:20 a.m.

Mr. Bursey: I have heard this argument before, but I am going to refrain from giving a pat answer. I will go back to something we mentioned before, something that obviously you have all heard.

About 19 per cent of US exports go to Canada; 9.75 per cent go to Japan. Self-interest would dictate that the United States, as an exporting country, would be interested in preserving that 19

per cent of its exports.

The nice thing about international agreements is that they are self-serving. That is what we have been talking about with the GATT and why I trotted out the previous argument. In any instance, a country, like an individual, will act only in its self-interest. Very few countries, and I must include Canada, act against their self-interest. We have done so and that is the bottom line.

Historically, we have acted against our self-interest, but why should the United States keep to an agreement? We have to tell them it is in their self-interest. What we will tell them is nothing more than dollars and cents. Dollars and cents is what some of this is about. Dollars and cents is what any kind of discussion with the United States will be about.

Mr. Mackenzie: We have been such patsies until now that we have little hope they are going to believe we have suddenly got tough.

Miss Stephenson: They will believe it if we do get tough. That is what we have to do.

Mr. Mackenzie: I have difficulty, without knowing where we want to go, knowing how are we going to get tough.

Miss Stephenson: We cannot go on being pussycats for ever.

Mr. Chairman: How can we be certain at all times in the future that we can convince them it is in their self-interest to obey an agreement?

Miss Stephenson: You are not going to do it unless you try. You will never convince them if you do not try.

Mr. Bursey: That is argument number one. The other thing is that there are no guarantees to anything.

Miss Stephenson: That is right.

Mr. Bursey: When we signed the GATT--and let us face it, I know some individuals who will literally stake their life on the fact that the GATT is inviolable. They are deluding themselves. That is all there is to it.

Nothing, no treaty, no contract--heavens, half of you in here are lawyers, you should know there is no contract that cannot be broken, no agreement that cannot be circumvented. There are no guarantees, but we can try to make sure it is in everyone's best interest not to abrogate those agreements.

We have not yet begun to do that. That is why we are suggesting starting those negotiations now. Starting the negotiations is partly a selling job. For once we have to be salesmen. Let us sell Canada to the United States. In doing so, we point out their self-interest.



Mr. Chairman: We have interrupted quite a bit. Perhaps you want to get back on track.

Mr. Bursey: The only thing I can do at this point is conclude. If you have any further questions, I am ready.

Our recommendation is, there is no question an accelerated and co-ordinated research program is still needed. It must be conducted to appreciate better the implications for ourselves and for the United States. It must be conducted so we can appreciate our situation in the world economy. It is a learning process.

Once Canada's objectives have been established, and even prior to that, negotiations should begin immediately, accompanied by an intensive and very proactive lobbying effort at all levels of government and industry. We must be pragmatic and opportunistic and we must be willing to go outside the GATT framework whenever it is deemed beneficial by both parties, Canada and the United States, to do so.

We do not advocate a trade deal at any price. If the US does insist on the withdrawal of subsidies, social programs, regulated exchange rates and the like, we can walk away at any time, but we have to try something. We have to try to get their attention and we have to try to put together a framework wherein Ontario and Canadian industry, Ontario and Canadian agriculture, Ontario and Canadian natural resources can have continued and, we hope, growing access to our largest export market.

In conclusion, every time you take a dollar out of your pocket, I ask you to remember that 20 cents of it is marked "Made in the United States of America."

Mr. Morin-Strom: In regard to your concluding remark about the 20 cents, presumably that 20 cents is because of sales to the United States. On the other hand, another 20 cents goes to the United States to buy goods that come into Canada.

Mr. Bursey: Not quite. Eighteen and a half.

Mr. Morin-Strom: Okay, but in the long run there has to be a balance of dollars in and dollars out of the Canadian economy and the United States is going to be fairly close in the long run. If a move towards the freer trade agreement means that percentage is going to increase, rather than stay the same or go down, does that not make us all the more vulnerable to unilateral actions by the United States such as are going on now?

It seems to me it is somewhat of a folly for us to say that our solution to our current vulnerabilities to actions by the United States in our trade relationship is to promote a higher percentage of integrated economy and a higher percentage of trade back and forth across the border. There is no guarantee a treaty or agreement will not be broken in the future when it is to the advantage of the United States.

Twenty per cent to us is perhaps two per cent to them and, with regard to negotiating position, we are the ones who are much more vulnerable. We do not have the negotiating position strength they do. The tradeoffs they may see are much smaller to them than to us.

I am saying there is a fundamental issue as to whether we should be promoting a more integrated North American economy or trying to maintain a Canadian economy that would have as one of its objectives self-sufficiency in the products we can produce.

Mr. Bursey: You brought up about five issues that I can identify. Let us tackle the last one first, self-sufficiency. Please indicate to me, and I include the Soviet bloc and just about every country in the world, a country that is self-sufficient. I do not know of one.

Mr. Morin-Strom: No, but there is none that is less self-sufficient than Canada.

Mr. Bursey: That is not true.

Mr. Morin-Strom: We had evidence before that only the Netherlands has a higher percentage of its products exported than does Canada.

Mr. Bursey: That is true.

Mr. Morin-Strom: You cannot claim Canada has tried to be very self-sufficient in the past.

Mr. Bursey: A higher percentage of products exported; but there are countries that are just as dependent on their trading partners as we are.

There is another thing I would like to point out. You say we should increase our independence or decrease our dependency. Where are we going to increase it to? We have effectively four borders: one to the south with the United States, one to the east with the Atlantic, one to the west with the Pacific and one to the north with the Arctic.

The Arctic does not produce anything. The Pacific has lower labour rates on almost every single good that we produce. In Europe, 50 per cent of the categories we try to export is closed to us. The only other thing we can do is to try to leapfrog the United States and go down to Latin America which, so far, cannot pay for its goods. Where are we going to go?

Mr. Morin-Strom: Right now we have a very good trading relationship with the US. As you mentioned, 80 per cent of the products being exported are under tariffs of five per cent or less. I am not sure that a move to a freer trade environment is necessary to our economy and of particular benefit.

Mr. Bursey: There are two things that lie behind that argument. One is the assumption we can do something else. Please

educate this country as to what else we can do. That is what we hope we will get from this committee. What are the other options? At the moment, the board of trade, having looked at the options, does not see any other viable green light or rosier option than the United States.

We are a geographic country. I do not have to go over all the geographic significance of our industrial development. We are isolated, have a narrow strip of production and have an incomplete industrial infrastructure. For instance, do you know of any company in Canada that makes--I do not mean samples--industrial machinery? There is one. It is an Ontario company that makes training machinery. That is your technologists.

The basis for industrialization is the ability to make machinery. We cannot make machinery. Korea, Spain, Japan, West Germany, France and, yes, the United States can. We are an incomplete nation. We are a patchwork of things. That gives us a competitive disadvantage.

Mr. Morin-Strom: Now, obviously--

11:30 a.m.

Mr. Bursey: Perhaps you will excuse me for a minute; you raised the question and I will answer it for you. You have effectively raised the spectre of our looking for what was referred to in the 1960s and 1970s as the "third option." We have tried the third option as a policy of the Department of External Affairs and the Department of Industry, Trade and Commerce and it has not materialized so far. Why?

There are about four reasons. The two most important ones are our location, which I have previously gone over, and the second is the emergence of trading blocs.

The European Community is relatively closed to 50 per cent of our products. That is reality. That is not, "Gee, can we not open it?" They say no, and there is no apparent advantage for them to open their doors to our trading products because they can export to us what we do not manufacture; so it is not hurting our industry. Look at what we bring in from Europe. We do not bring in general commodity items, with a few exceptions. We bring in luxury goods, specialty goods and high-technology goods.

If we take a look at the other ocean, which is the Pacific Ocean and which is a natural trading route if we operate with some kind of merchant marine--another problem, we do not have one--then we have to look at the Pacific. What have we got?

Mr. Mackenzie: We have problems because we have had no national policy.

Mr. Bursey: That may be your answer. That may be it, but what I am saying is--

Mr. Morin-Strom: The focus is not external, it is internal--if we had an industrial strategy. There is the question



of Canadian content. You mentioned our machinery industry. We do not have a machinery industry. That is an obvious one where we could have a Canadian content requirement.

Mr. Bursey: Why?

Mr. Morin-Strom: To start the development of machinery industry within Canada.

Mr. Bursey: All right.

Mr. Morin-Strom: To encourage other foreign firms to start building plants in Canada to produce machines here in Canada.

Mr. Bursey: Is mining machinery an end product? Tell me, is it an end product?

Mr. Morin-Strom: Well, every product--

Mr. Bursey: No, it is not. End product is--

Mr. Morin-Strom: Every product is used for something else and every product is produced out of other products; so it is more complex than being a starting product or an end product.

Mr. Bursey: Tell me where mining machinery is used. It is used in mining. Right? You would not use mining machinery in agriculture; you would use it in mining. It is a very simple argument. But if you build an industry which is inherently uneconomic, that uneconomic cost, that is, the extra cost of making that industry, is going to be paid off down the line.

Mr. Morin-Strom: Why do you believe that would be inherently uneconomic in Canada, where we have one of the largest mining industries in the world, to which it would feed its products? We have very good, high-quality, relatively low-cost steel and we have good transportation systems to give access to the mines within northern Ontario and northern Quebec. I do not see the inherent disadvantages for mining machinery within Canada.

Mr. Bursey: We make mining machinery in Canada--

Mr. Morin-Strom: Very little of it.

Mr. Bursey: --but not the whole lot. We only make those specific adaptations which are needed in Canadian industry, but the main part is power trains. Power trains are primarily engines--chassis, axles, springs--and we make most of the springs here. They are controls. In most cases, we do not make any of that equipment in Canada. There is a very good reason for it. It is very expensive and it is a highly competitive industry. There is world-wide overcapacity and you can buy it cheaper than you could make it here at any price.

Mr. McLean: Maybe I could come in here just for a minute. J.K.S. Boyles Industries Inc. in Orillia make mining drills which they export to Africa. They are made totally in that plant.

Mr. Bursey: That is right. But they do not make the motor drives and they do not make the controls.

Mr. McLean: That is correct. There are about two items that are not made in that plant.

Mr. Bursey: But that is 45 per cent of the cost.

Mr. McLean: It could be.

Mr. Bursey: Yes, we do make specific products, some of which are exported around the world and we are very competitive in them, but you must take a look at what it is we are making. We are making the design, assembling the product out of components that sometimes we have to buy from around the world and making only that product which can be efficiently made here in Canada. Our businessmen are not stupid. As a matter of fact, the great majority of Canadian businessmen are very good--and I will exclude myself from that one. Realistically, we do make products, and for the mining industry, there is relatively free trade in products. In the agricultural industry there is total free trade in products.

Those mining drills actually are both electric--because I know the company--and gas-powered. Now they are even doing conversions to diesel power. Those power plants constitute a very complex technology and need very long production runs to be efficient. We could not make them here because of the quantities we would have to consume and export worldwide.

The other problem is that we are not dealing in isolation. We are competing against companies in that particular area, from Sweden, Japan, Korea, partly from the United States--but not very much; the United States buys a lot of that equipment from us--and also from France. They make excellent products very cheaply, even without some of their government subsidies because they have longer production lines.

There are certain industries in the world in which it does not make sense to put massive investment, be it government or private, because there is already existing overcapacity. You have to do one of two things to get rid of overcapacity. You either have to change that capacity to produce another product or you have to increase the size of the total market.

That is not something brilliant from an economist. Any kid selling lemonade around the block will know that either he has to sell to two blocks if he wants to increase his lemonade sales or he has to reduce his production of lemonade and maybe make something else--butter cookies or something. It is a very simple thing.

What we are talking about when we talk about self-sufficiency is the size of the market and the overcapacity that exists on a worldwide scale. If we do not, we then have to close all our own borders to both imports and exports and manufacture for an internal economy. Prices would be extremely high and you would probably get a situation closer to the Swedish

or the Finnish system, where there is a lot of government subsidy and extremely high personal and business taxation rates for gains that are not really all that apparent.

I do speak from experience with both Sweden and Norway. I have lived in those countries for a total of five years. I do a lot of business with Sweden. They are very interesting countries. One thing we never hear about Sweden is that it perpetually goes bankrupt. Every seventh year--it is a deutsche mark based economy, by the way--Sweden declares official bankruptcy. They revalue the currency.

You all may laugh and say, "Gee, that is impossible." No. Countries go bankrupt and they do it because they have made an industrial commitment to supporting a system in which they just do not have the flow of money into the country to pay for the goods and services they are buying both from abroad and internally. It is a very complex and convoluted system, but it does work because it is tied to the deutsche mark, without getting into international monetary policy.

Mr. Chairman: That is what we politicians have been looking for for years.

Mr. Morin-Strom: I have one other question I am going to ask about the service sector and the dependence of Toronto on the service industry. One of the things I certainly notice, being from outside Toronto, is that when I come to Toronto it appears that there must be a tremendous number of jobs in the head offices downtown, in the bank towers, etc. It seems that one of the real engines of growth has to be the fact that the financial, banking and insurance centre of Canada is Toronto and that so many major corporations have head offices in Toronto. Of course, those head offices generate a lot of other jobs in consulting firms, legal firms and so on downtown.

Mr. Taylor: Window washing.

Mr. Morin-Strom: Okay. I wonder, though, whether in an open, integrated North American economy Toronto can hang on to those head offices. Do you think we are vulnerable to losing a lot of head offices to New York?

Mr. Bursey: Yes and no. Let us look at a situation even without free trade. What would make any of us as lawyers, businessmen, accountants or consultants move offices? Two things: cost and opportunity.

If we are talking about the established corporations here, let us start naming names: IBM, ITT. Those are the kinds of corporations I presume you are talking about, the American multinationals who have a considerable amount of--

Mr. Morin-Strom: I am talking about Canadian as well.

Mr. Bursey: All right, maybe Canadian as well. As a matter of fact, right at the moment Northern Telecom employs about



five times as many people in the United States as it does in Canada, and that is without free trade.

One of the things we have to look at about business is that it locates where there is opportunity. There is a certain amount of opportunity here. Chief financial officers of companies like to talk to their bankers, because that way they hope to be able to forestall their bankers having a lousy lunch, coming back and pulling all the loans. It happens. You keep close contact with those people because it is the opportunity that you gain. But you do not necessarily need the computing department here downtown and you do not need the marketing department, because you hope all your salesmen are out on the road pounding on potential customers' doors.

One of the other things we keep on forgetting is a nasty little word called technology. If we remember the offices of the 1950s, they were primarily an entrance hall, chairs, desks and probably an IBM electric typewriter. At that time that would have been any number of smaller companies, but IBM was becoming quite important at that point.

11:40 a.m.

Take a look at the office of today. It has integrated computers with in-office networks and telephone lines that can span the globe. We do not have to dial for long-distance operators as we did in the 1950s or 1960s. Right now I can direct dial to the other side of this continent or to Spain or Japan.

Miss Stephenson: To Germany, anywhere in the world.

Mr. Bursey: I can also send information over the telephone wire, not on a telex, which is antique technology, but using facsimile machines. If I really want to spend money, I can hook up a modem to the computer in my office and send information over other telephone lines through a satellite to the other side of the world.

What I am pointing out is it really does not matter whether we have free trade with the United States in that particular situation, because if it is cheaper to locate in Toronto and you still have the personal contacts you need here, fine and good, items that need that kind of service will locate here. If it is cheaper to have computing staff at \$3.25 a square foot out in Mississauga or Scarborough, Tennessee or Oklahoma, they will be put there. If you want to communicate with someone, there are no longer the barriers that used to exist.

Business primarily runs on communication. The other thing we have to understand is that business today is less and less the sale of goods, but of services. You do not buy a car because it is a car, but for what it can do for you. Maybe you buy a few bells and whistles because they are nice and you want to impress someone, but you buy a car because it gets you from point A to B a heck of a lot more efficiently than maybe a train or an airplane. If you want to get from Yonge Street to Mississauga or some other

place, the train so far cannot quite do that as efficiently as a car, certainly not on a Saturday afternoon. That is why you buy it. Businesses are relatively rational too.

Mr. Morin-Strom: Does that mean we can expect, for example, the Toronto Stock Exchange may be absorbed by the one in New York?

Mr. Bursey: Why should it be?

Mr. Morin-Strom: Look at the US example. There are other cities comparable if not larger than Toronto that have had stock exchanges absorbed, for instance, Philadelphia and Boston.

Mr. Bursey: Those are two different problems. Have you ever listed a company on the New York and Toronto Stock Exchanges or tried to? They are two different animals. The other thing is that the Toronto Stock Exchange caters to a Canadian market where there are domestic firms. For one reason or another, generally because of the cost, some Canadian firms refuse to list on the New York Stock Exchange. They go to the one in Chicago as a subsidiary listing.

The other problem, if we are talking strictly about stock exchanges, is that some, such as the one in New York, are periodically closed to listings. They are too big and cannot handle that volume of data any more; so subsidiary stock exchanges have popped up. Toronto is considered a very attractive financial centre for New York people. It has lower costs, equally good communications, different pools of capital available. It is an alternative, which normally does not close down because there are reasons for having alternatives. There is enough business for that centre.

So far, we can ascertain New York will probably remain the magnet for international capital exchange worldwide with or without any free trade. There is no doubt of that. It does not mean Toronto will decrease in importance. It will grow because it has some peculiar mechanisms related to Toronto and related to Canada. We still have a country. We are still talking about having a national government, federally chartered and regulated banks, trust companies and credits. None of that is under discussion when we mention free trade.

This is the kind of thing we alluded to before. This issue is getting very muddled, if we wish to call it a free trade issue. It really means trade enhancement. It means enhancing your ability to trade goods and services between two countries. It does not mean, gosh, we are going to have everybody moving out of Toronto, or that the New York and Toronto Stock Exchanges are going to merge. That may be wishful thinking in the minds of some, Armageddon in the minds of others. In either case, it will not happen--not because of free trade, anyway.

Mr. Chairman: Are there any other questions?

Miss Stephenson: I would like an opinion. It would seem to me that the danger of becoming totally subjugated to the United States, which appears as a bogymen in every kind of discussion related to trade enhancement or freer trade, begs the issue that if we become capable of dealing effectively with the United States, then surely as a trading nation we should become more capable of dealing with other countries in the world.

It seems to me we may not be suggesting that we are going to enhance our trading percentage or the relative value of our trade with the United States by up to 50 per cent of our gross national product or anything of that sort, but we may increase it by four or five per cent, which is significant and of benefit.

It should also give us some capacity to deal more effectively with the other trading nations, even the European Community, which at present is plain bloody-minded, somewhat similar to the Japanese, as a matter of fact. With that kind of experience, we may be able to increase that relationship as well.

Canada, because of its peculiar geographical site and because it has some strange characteristics, is never going to be totally self-sufficient; as you suggest, no nation is. We will have to depend on trade increasingly, and we need the capacity to deal effectively in trade matters around the world, not only with the United States.

This is probably a good exercise for us and one we should be enthusiastically considering becoming involved with, without any suggestion that we are going to give away the store or give away all the things we have built up or our national characteristics or our national institutions.

I wonder if there is a possibility that we could be becoming better. That is an opinion, because we do not have any factual information anywhere. We could become better in the other international trade areas if we enhance our capacity with the United States.

Mr. Bursey: We are keeping this strictly as a matter of opinion. The board of trade has put a presentation before Mr. Kelleher which addresses that issue directly.

I do not know how many of you have ever banked at a Canadian bank overseas, but you are unlikely to find a Canadian, not behind a teller's window, but behind the management of that overseas Canadian branch.

Miss Stephenson: Oh, two or three.

Mr. Bursey: The nationalities have traditionally been from the United Kingdom and Holland. Normally they have been the Canadian bank managers who have located overseas. There are a number of reasons this has happened, but it has almost been an inherent assumption. I bring the banks up because they are our largest multinationals--they are Canadian companies, Canadian owned and Canadian managed in general--but our representation overseas has usually been by foreign nationals.



If you take a look at Japanese banks, they have Canadian tellers in Canada, but if you go back there and talk to the manager, he is Japanese; ditto Belgian, British, American and other banks. The head of a foreign operation is a national of whichever banking nationality that bank represents.

You may think at first, so what? We are being nice and going along with the regulations of the local country which, like our own, tries to employ local nationals. To a point that is true. What is very important, however, is that this is a training ground for young and middle managers.

If you send Canadians overseas and give them five or six years' experience in two or three markets overseas, they will come back with a totally different outlook and a totally different range of skills than if you gave the same people employment in Toronto, Montreal, Vancouver or anywhere in Canada.

They have had to deal with a whole set of variables we have not even defined here. They deal in a different language. They deal with different accounting systems. They deal with different competitors. They also deal with different constraints and opportunities. That expands our horizons, and it is very important both as a trading ground and a training ground. It is something we have not consciously tried to push as a nation.

Let us look at the nations that have. When the United States was developing its multinational corporations over the past 60 years, there were no regulations, as there are today in many countries, prohibiting the use of foreign nationals. In a lot of cases you would literally get a whole office of the Bank of America, right down to the tellers, being staffed by Americans. In a lot of cases, it was a convenient husband-and-wife operation. Today that is not the case. Americans generally will run American banks but the tellers are locals.

11:50 a.m.

At the same time, when our Canadian banking system was developing, for reasons I have not been able to identify, we took a different course. It is a course that has set a pattern for Canadian industry, because our banks tend to lead our industry. That is not true in other countries in the world, but it is historically correct that our banks go first and our industry follows.

In the employment of overseas representatives, Canadian companies and, I will admit, the Ontario government and its foreign trade offices do not always employ Canadian nationals. They employ foreign nationals to represent the Canadian banks, Canadian firms and yes, some Canadian provincial governments and the federal government. Many have argued that this is the correct thing to do to keep good relations with the host country.

Since it is not visibly done by any other country in the world to the extent that we do it, I would argue that it is not necessary and that probably it is damaging in the long run. It does not give any of our managers, be they from the private sector

or the public sector, the experience they need right now, which they will need in a few years' time and which will be absolutely essential not only to management but also to engineers and to scientists probably in the decade to come and many years thereafter. That is a major flaw we have as a country and as a province.

Yes, it is a heck of an opportunity to learn the trading ground and to train people, because it is bringing all that wealth of information and knowledge back to this country.

Miss Stephenson: That leads to yet another conjecture, which is that our sense of inferiority in trade is based upon the fact that we have looked at this nation as a haven. Those people who did not want to stay in the countries in which they were raised decided to come to Canada because it was peaceful, safe, quiet and distant. As a result, we have become a very complacent nation. We bitch constantly about the difficulties we have; we have so few that it is just ludicrous when you compare us with others, but we do not want to leave.

We will not be aggressive in our actions with trade. You have to stimulate government departments to urge industry to get up off its duff in Ontario or Canada to go see what is out there. Part of it is that banking experience, which is kind of painful.

We have to change our attitudes. I guess we have to be responsible for helping to change the attitudes within the province and the country as well, but we sure have to change a lot of attitudes outside the country too. We are going to be responsible for that. No one else is going to do it for us.

If we sit around and suggest we are going to remain a nice, safe, quiet, distant haven attempting to be self-sufficient, then we can be absolutely sure that our standard of living is not going to be what it is right now. We have been terribly fortunate. We cannot go on depending upon our good fortune. We have to make some of it from now on.

Mr. Bursey: May I make a supplementary comment? In reference to the self-sufficiency issue, I can now remember one self-sufficient country: Albania. It does not have quite the standard of living that we Canadians would want, but it is a self-sufficient country. It has been bothering me ever since you raised that point.

Mr. Mackenzie: Do you put Canadian content in the same category?

Mr. Bursey: Not necessarily; in some cases maybe, but not necessarily. Again it depends, as you have so rightly mentioned, on what national policy, what national priorities we bring up and therefore on how Canadian content fits into those particular policies and priorities.

One of the interesting things we have had as an international trading nation is that we have inherited our international trading ability from the British. We were suppliers

at first in our history. It is well documented that we were primarily suppliers to the British navy and the British army for a start. Our first diplomatic service, as a matter of fact, was the trade commissioner service, which no longer exists. Our first diplomatic post was opened in 1922, and on this goes.

We have been reluctant traders, but when we have grasped opportunity, when the Magnas, the Spar Aerospaces and the Northern Telecoms of this world have gone after the market, surprise, surprise. Canada has some excellent products and some excellent people, although it has been difficult getting off our duffs to do something. Maybe this free trade discussion, if nothing else, may wake up some of those smaller companies.

Take a look at a number of small companies in Europe. An average small company in Europe with about \$5 million total sales will probably have 40 per cent of its sales coming from exports. That is not true of Canada. In a lot of cases some of my clients consider exporting a matter of going to Quebec, Halifax, Winnipeg or Vancouver. That is exporting for them.

We have a major job to do. You are the leaders of this province. It is not solely your responsibility, but it is the responsibility of your committee, the members of each of your parties and eventually the governments, however they may align, to lead and to question the direction this province and this country will have to take.

As a personal comment, I hope you will be able to make some concrete recommendations after your deliberations. My comments obviously are one tiny part of everything you have heard. I hope you will make recommendations to the people of Canada, to the people of Ontario and to the federal government as well as to your own government departments here in Ontario as to what should be done and what the next course of action should be.

Mr. Chairman: Your presentation has been extremely persuasive and a spur to us. I want to thank you very much. You have presented a view we have heard, but you have presented it in a new light to some of us.

Mr. Bursey: By the way, we have to deliver a number of copies of our previous submission to Mr. Kelleher. That will take a few days to arrange but they will be sent to you.

The committee recessed at 12 noon.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, AUGUST 21, 1985

Afternoon sitting



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Witness:

Lipsey, Dr. R. G., Senior Economic Adviser, C. D. Howe Institute



LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, August 21, 1985

The committee resumed at 2:09 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Perhaps we can get a few housekeeping matters out of the way before we start the session this afternoon.

Mr. Traficante has just talked to me about the response to a motion that has already been passed, that we seek contracts which would enable us to obtain more detailed predictions, in so far as those predictions are possible--and we heard this morning an opinion that they will never be more than 75 per cent accurate--and that we seek something both in the long run and the short run.

I am told that in the short run the only thing that is available is a proposal by Peter Dungan of the policy and economic analysis program. It will be using a model which, I am told by Mr. Traficante, may be accused of having a bias towards free trade, but I guess all models have accusations of a bias one way or another. We can use this model within a very short period of time, by late September or early October. In fact, he says there will be initial runs by the end of this month.

Mr. Traficante: Yes, but no results for us until the end of September.

Mr. Chairman: He will have information in the way of a prediction for Ontario that will have a time span involved in it and will involve the effect on gross provincial product and presumably on jobs. It may be subject to some attack, but we are still getting proposals in on a more detailed analysis. Nothing more detailed will be available for our initial report.

Mr. Taylor: It troubles me that we may need a private detective more than an economist or some other professional to ferret out the reports and those in progress that will no doubt be of help to this committee.

Mr. Chairman: We are certainly taking good notes on everything we hear about what is being done elsewhere in Canada. We are hearing almost daily about new ventures in progress and we are going to follow up on all of them.

Mr. Taylor: It is important to make sure we are not undertaking an effort that will duplicate something already in progress. That concerns me, especially when we are not sure of what is in progress. We can surmise that there are many people at work developing reports, models or impact studies on employment in Canada, in the various provinces and in the various sectors of

industry. I put that to you to ensure that what we get is not going to be a duplication or an anticlimax.

The other issue is budgeting. Have you some forecast of the cost of this exercise?

Mr. Chairman: Yes, it will be \$3,500 for model access, computer costs and the researcher's time. Compared to the other quotes I have been hearing for a large project, that does not strike me as unusually high. This will be tailored specifically for our need for our interim report. Rest assured that in the long run, before we enter into any major contract, we will track down all the work we can get hold of--I suppose we will not be allowed to know very much about some of it--to make sure we are not duplicating anything.

Mr. Mackenzie: The figure of \$3,500 strikes me as unusually low, but if we have some assurance that, even though it may be questioned, it is one of the first reports that begins to put some quantitative figures on what is going to happen in terms of employment, then even if it is attacked, if it does nothing more than open up the discussion, it may well be worth it.

As I said earlier this morning, I am not sure the figures are what we need, as much as deciding exactly what we want to do as a province and a nation. On the other hand, it is obvious we cannot deal with the ramifications of a freer trade arrangement without starting to pull together some figures. If there is some assurance that we are getting something for what I see as a very modest amount, then it is probably worth it.

Mr. Chairman: The clerk tells me I already have authority on a previous motion passed to go ahead with this contract, so this is basically an informative statement I am giving you.

Mr. McFadden: I want to be absolutely sure I did not get the wrong impression. We are talking about some form of a macroeconomic model, which obviously would not be capable of breaking it down, from what you are telling me and from those figures, by industry sector.

Mr. Traficante: This model is the only one of which I am aware that has a considerable Ontario model built into it. It is probably one of the few that can actually give us some good numbers for Ontario on a macroeconomic level.

He is suggesting providing us with sectoral detail later, but he cannot do that within the next month. He needs three to four months for that. He is saying he could provide us with some macroeconomic numbers for Canada and for Ontario with some time frames and other kinds of data within a month to a month and a half.

Mr. McFadden: Which university?

Mr. Traficante: The Institute for Policy Analysis at the University of Toronto. They have their own figures. I believe the

institute has been building a macroeconomic model of the Ontario economy for the Ministry of Treasury and Economics, but that is not yet completed and I do not believe there is one in any of the ministries.

Mr. Taylor: There is no universality in this process. I presume you decide on the figures you want and then you go about getting them.

Mr. Mackenzie: We have agreed we need to get some figures. If this opens up the debate on it, it is probably useful.

Mr. Taylor: It already has, without even ordering the reports.

Mr. Chairman: The other thing I wanted to talk to you about briefly is the schedule you have received, in which Ottawa is scheduled for Thursday and Friday of next week. Apparently, we have about a day and a half of submissions to hear in Ottawa and it is possible to move the Ontario Forest Industries Association submission from Wednesday morning to another day and start the sessions in Ottawa a day early or on Wednesday afternoon.

Clerk of the Committee: You have one day of sittings in Ottawa, half a day with the federal government and half a day with the Economic Council of Canada and one other witness, so I see that as being either Wednesday afternoon and Thursday morning or Thursday morning and Thursday afternoon.

Mr. Chairman: Since we will be approaching a long weekend, is it the wish of the committee to try to move Ottawa further into the week?

Mr. Taylor: Advance it?

Mr. Chairman: Yes, so we would be there on Wednesday instead of Friday.

Mr. Taylor: Yes.

Mr. Mackenzie: Wednesday and Thursday make sense to me, if we can do it.

Mr. Chairman: We will go ahead and try to do that.

Members of the committee, as a 1960s graduate of Queen's University I was extremely pleased earlier this week to hear that my university has still got the sort of clout it had in those days when it was known as the university that governed the country.

Miss Stephenson: There is some debate about that.

Mr. Chairman: I do not think so. We heard that to be the case from a local upstart university here.

Miss Stephenson: That is not really what he said.

Mr. Chairman: It is with great pride that I introduce



Professor Richard Lipsey who is now with the C. D. Howe Institute and who has authored this book that some of us have read. If any of the rest of you wish to, you may certainly borrow it.

Mr. Traficante: Maybe we can get a copy for each member of the committee.

Mr. Chairman: That could likely be done.

Mr. Taylor: Would it help the sales?

Dr. Lipsey: We would be very glad to sell them at the market price.

Mr. Chairman: That will be done then.

Miss Stephenson: Mr. Chairman, before Dr. Lipsey begins, could I ask whether we are going to have any of your colleagues here this afternoon? They have been somewhat scarce this week. I know I was scarce for a while, but I anticipated seeing at least one this afternoon.

Mr. Chairman: I do not know what the problem is, but I will look into it. If you would like to have more Liberals here, we can certainly try to find them.

Miss Stephenson: It is very useful to have them present.

2:20 p.m.

Mr. Mackenzie: I echo the comment. We have always argued in committee that the meeting should not proceed if there is not a member from each party, usually as distinct from the chairman. If you are willing to go ahead, I have no objection, but there should be members of all three caucuses here.

Mr. Taylor: I think the scorn the Liberal members have now gratuitously received will be conveyed to them.

Miss Stephenson: That was not scorn.

Mr. Taylor: There has been some comment. I agree with Mr. Mackenzie that traditionally all parties are represented, apart from the chairman. However, the chairman is a great Liberal and I think he can well look after that party's interests so we do not hold up Professor Lipsey.

Mr. Chairman: Professor Lipsey, incidentally, has invited us to interject. I do not think we want to do it too much during the course of his presentation.

DR. RICHARD LIPSEY

Dr. Lipsey: I have read your proceedings, so I am aware of the danger of interruption and I welcome it. I have a prepared submission that falls into a number of points. I would certainly invite interjections, comments, and discussion after each point, if I can get through each point. My only reservation is that I

think the last point is the most important. If time slips away, perhaps you will give me five minutes at the end to get to the last point.

Mr. Chairman: That should be noted by the committee members.

Dr. Lipsey: I am honoured to be invited to speak to this committee. Murray Smith and I have already expressed our views in a monograph published by the C. D. Howe Institute entitled Taking the Initiative: Canada's Trade Options in a Turbulent World, which has already been displayed by the chairman.

In that monograph, we examine Canada's existing trade options and argue that a major initiative towards bilateral trade liberalization with the United States on both tariff and nontariff barriers to trade is the only option that offers a significant chance of avoiding the bleak outlook we see for the Canadian economy under present economic policies. I will return to that view at the end of my statement, which is the last point I just mentioned I want to make.

In the meantime, however, I would like to take another tack. I have studied the minutes of your committee's hearings and I feel that to present a brief on our arguments would be to go over ground you have already covered. Instead, I have opted to select a few issues that my study of your hearings suggest to me are worth further airing.

I sympathize with a committee such as yours. You are clearly interested in getting at the facts and the issues involved in this matter, a matter that I believe is the most important issue facing Canadian economic policymakers since the Second World War. Everyone who has spoken to you, I am sure, shares with yourselves and myself the desire to do what is best for our great country. Yet you have heard many divergent views and you have the difficult task of trying to decide, on the basis of conflicting advice, what is best for our province, Ontario, and what is best for our whole country, Canada. Your own perspective must be the province you represent, Ontario, but as Canadians you will ask yourselves if there is a conflict of interest between what is best for this one province and what is best for the whole country.

Many Ontario politicians seem to feel such a conflict exists. I shall argue that in my view, at least, there is no such conflict. As I see it, what is best for the country as a whole is also best for Ontario. Perhaps you will permit me a moment to tell you where I come from, since you must wonder that about all witnesses, especially those who have taken a strong line either for or against a major trade liberalizing initiative with the United States.

My grandfather was a skilled carriage-maker who worked at the end of the century for the BX Express in British Columbia and later owned a carriage-building establishment in Victoria. His profession and his business were wiped out by the rise of the automobile industry, so I am no stranger to technological unemployment. As a young person, I saw its effects on my own

grandparents. My father left school at 12 to sell newspapers to support his family and rose to be part owner of a Canadian firm that then sold out to an American multinational corporation. He stayed on as manager.

When I first studied economics, my motivation was to some real extent to understand my family history. Why did my grandfather lose his livelihood? Could anything have been done by public policy to prevent it? Was the American multinational firm that bought out my father a bad influence on Canada? I shall return to that at the end of my comments in the last point I wish to make.

Let me discuss first some of the issues that are before you. You are concerned with Canada's trading relations as they affect the welfare of Canadians in general and Ontarians in particular. A great deal of emphasis in evidence before you has concerned the balance of trade, either on particular items such as tourism or on our trade as a whole. Such commentators are often judging the nation's balance of payments just as they would the accounts of a single firm. Just as a firm is supposed to make a profit, according to this view, the nation is supposed to secure a balance of payment surplus, the benefits being derived from international trade being measured by the size of the surplus.

In holding such views today, people are echoing an ancient economic doctrine called mercantilism. The original mercantilists judged the success of trade by the size of a country's trade balance. In many cases this doctrine made sense in view of their objective, which was to use international trade as a means of building up the political and military power of the state rather than as a means of raising the living standards of its citizens. A balance of payments surplus allowed these nations to acquire foreign exchange reserves. These could then be used to pay armies composed partly of foreign mercenaries, to purchase weapons from abroad and generally to finance colonial adventures.

If, contrary to the mercantilists, we take the view that the object of economic activity is to promote the welfare and living standards of ordinary citizens rather than the power of governments, then the mercantilist focus on the balance of trade makes no sense. What we understand today is that average living standards are maximized by having individuals, regions and countries specialize in the things they can produce relatively cheaply and then trading these for the things they could produce at home only relatively expensively. The more specialization, the more trade.

In this view, the gains from trade are to be judged by the volume of trade. A situation in which there is a large volume of trade but a zero balance of trade is then seen to be very satisfactory. The benefit to the country in terms of living standards and employment depends on the volume, not on the balance of trade.

The importance of this point to the current debate is that we should judge trade initiatives by what they do to the volume of



trade, not the balance of trade. If a cut in tariffs leads to more Canadian exports and more Canadian imports, then this is good for the citizens of the country. It follows that for every increase in exports there will be someone who will complain about the dire consequences of an increase in imports. But this is not a bad thing. If we do not want imports, we had better forget about exports and put up with the minuscule standard of living that self-sufficiency would produce for Canada.

There is another closely related issue. Some evidence put before this committee has concerned Canada's declining share of trade in many items, as if this were a cause for national concern. In the growing world economy of the last 40 years, where new countries are emerging as trading nations, are exporting and are providing new markets for imports from other countries, any established country must expect to find its share of exports falling.

To see this, consider a case in which there are 100 persons in a self-sufficient economy. The typical person will have one 100th of the total trade. Now let the economy grow to 1,000 persons. This growth will provide new markets, new investment opportunities and general prosperity for everyone in the society. Yet the share of the typical original resident's trade will fall to one 1,000th of the total trade.

As long as per capita output and per capita trade have increased, as it will surely do in such an expanding market, the typical person will be better off. The declining shares of the original inhabitants will signify nothing about their living standards and will only tell us that these people were lucky enough to live in a growing rather than a static economy.

2:30 p.m.

So our declining share in many of the world's traded items does not mean we are unable to hold our own in open international competition. Trade liberalization has been advocated as a way of gaining new export markets for Canadian industry. But a great deal of concern has been expressed over import penetration in the Canadian economy if we liberalize trade. Yet new import penetration is what we must expect if we are to gain new export markets.

Let me give you an example. The Kennedy round of the General Agreement on Tariffs and Trade liberalization led to a boom in Canadian exports. Indeed, in virtually all of the industries covered, Canadian exports rose--I am referring now to the Economic Council of Canada's study of the Kennedy round. However, so did Canadian imports in the same industries. What happened was that Canadian firms specialized in particular product lines and abandoned their attempts to cover them all. Costs fell as we specialized and, as a result, our trade, employment and living standards rose.

Had any committee conducted hearings at that time, the same worries we are hearing now would have been expressed then. Representatives of particular firms would have correctly argued

import penetration would increase. They would have been right. Yet at the same time, our export penetration in foreign markets also increased. The volume of trade grew, and we Canadians were all made better off by the resulting rise in the volume of trade.

People often worry about the Canadian mouse and the American giant, but we have one enormous advantage in the size disparity. If a mutual reduction of tariffs gives Canadian firms the same percentage penetration into the United States market as American firms achieve in the Canadian market, we gain 10 times as many sales as we lose in home markets.

For example, if free trade in beer led 10 per cent of Americans to buy Canadian beer, and 10 per cent of Canadians to buy American beer, Canadian firms would lose one tenth of the sales in Canada that they would gain in the United States. To break even in market penetration, we would only need to gain one per cent of the American market to compensate.

The disparity in size is often quoted and worried about in various contexts. I will come back to this again. One of the great advantages to us in the disparity of size is that a reduction in tariffs that has the same effect on American as Canadian consumers gives us a much larger expanding market than the Americans have.

So far, I have not attributed views to particular persons, although a review of your committee's notes will find the points I have mentioned so far have been expressed at some length. Now, however, I wish to devote some attention to the testimony of one of the most eloquent opponents of freer trade with the United States, Professor Mel Watkins of the University of Toronto.

I pick him out because he is one of the most persuasive advocates of this view and I think his ideas are typical of a group of people holding that particular position. Having "disposed of" the federal government's four options, in his words, Professor Watkins advocates a fifth one, which also has been persuasively argued by another Toronto professor, Abe Rotstein. I quote:

"It is to move to secure the Canadian market for Canadian producers, by the use of trade restrictions, to use access to the Canadian market as a bargaining chip to get the multinationals to produce more in Canada, to enhance domestic content arrangements and, in effect, to put in place an industrial strategy based on greater self-reliance and less dependence for Canadians."

This is also the strategy advocated by the Ontario Federation of Labour, as Professor Watkins notes, and the policy Mr. Pilkey, who spoke to your committee, advocated in detail in a paper he read at the Ontario Economic Council symposium on trade policy in spring, 1985. I am sure you know of the OEC's symposium. It has not yet been published, but when advance copies are available I am sure the committee will wish to study them. It was a three-day conference and absolutely fascinating. Some hard research was reported.

Murray Smith and I have considered this policy in detail and concluded that this "inward-looking option seems so risky that we

can only wonder if its authors have thought out its full international implications. Since the option seems to entail risks that are so large as to be not worth taking, we reject it." This option is also rejected, for example, by the Business Council on National Issues and the Canadian Manufacturers' Association.

The rejection of this seductive pseudo-option is so important I would like to quote at some length from a few of our reasons for rejecting it.

For the first international issue, consider the US reaction to this option. The initial stage of the inward-looking plan calls for increased barriers to trade with the United States, more buy-at-home rules and rules of various sorts that would throw demand in Canada on to Canadian goods. This action invites serious US retaliation. Given current protectionist sentiments in Congress, few would doubt this invitation would be accepted. If retaliation occurs, then sheltering the Canadian market will have made it more difficult for Canadian firms to export to the United States.

An even more serious issue is that many, perhaps most, of the specific policies needed to implement the inward-looking option are countervailable. Subsidies and other measures of an interventionist industrial policy risk serious countervail. In our opinion, such actions would reduce Canada to a siege economy, with shrinking foreign trade and more and more firms trying to stay in business on the basis of a small Canadian market.

The second international issue that seems to have been ignored by the framers of the inward-looking option is the reaction of Canadian exporters to the first phase of this policy. Canadian firms that are currently able to sell in the United States would find an increased incentive to remove their productive facilities there as both countries raise their trade restrictions.

Furthermore, the industrial policy, even if successful, would not become so all at once. Instead, one firm or industry after another would find it was able to compete in the United States. However, trade restrictions, which are a key part of the option, would still be in place. So the emerging, successful firms would continue to get the same signal: "Locate your plants in the United States in order to have secure access to the US market." At the end of the process, most potential exporters would have left the country and the remaining firms would have become, on average, less and less able to compete and so more and more dependent on trade restrictions, whose increasing severity they would continue to urge on the government.

This inward-looking option has a seductive appeal. Yet every time it has been tried elsewhere, the results have been declining living standards. Perhaps the most interesting case--and a new book has just been published on this, which I am currently reviewing--is Argentina, which in the 1930s had living standards and an economic outlook comparable to Canada's. Then a set of inward-looking policy options that are almost the same as those



advocated by such Canadian nationalists as Watkins and Rotstein were applied. As a result, we have the Argentina we know but to which would not like to be similar today.

I do not know whether I am being extraordinarily persuasive or just so boring you have no interruptions to make, but I am willing to proceed.

Mr. Morin-Strom: If you are encouraging interruptions, I should say the auto pact is clearly one example of a policy from which we have benefited. We have a reasonable share of the North American market because of Canadian content requirements in that pact. Are you saying you would reject out of hand such requirements in other industries as a way of building up our ability to displace imported products?

Dr. Lipsey: Thanks for the question. I will respond to three points, if I can remember them. I will take them in reverse order.

2:40 p.m.

I would not object to Canadian content rules, but I would if they were imposed unilaterally, unlike the case with the auto pact. If we go seriously into these forms unilaterally, we risk retaliation in the United States. The great advantage of the auto pact was it was a bilateral agreement and was without any doubt a great help to the United States and Canada.

When we go to the United States, and I have talked a great deal with External Affairs and other people who will be involved if it happens, the first thing is that we do not have to put everything on the table. If we do go to the United States, it is critical that we have a small list in advance--and it must be small--of things that are not negotiable. We cannot go and they say something and we go away and scratch our heads and come back and say, "We do not want to talk about that," and then they say something else and we say, "We do not want to talk about that." It is critical that the homework is done and there is a small list of things that are not negotiable.

Let me say two things that are not negotiable. One is cultural support policies. We must make clear there are certain cultural support policies Canada wishes to follow that may be inconsistent with total free trade. We must say at the outset, "These are things we are going to keep, and if you do not accept it, we are not going to talk to you."

The second thing on my small list is the auto pact. The auto pact is not negotiable. To upset that arrangement with all the investment and everything that has gone on on the basis of that arrangement by throwing the whole market open is not acceptable. That allays some of the worries that the advantages of the auto pact will be eroded. The list must be small, but those are my two prime candidates to be at the top of the list.

Finally, I talked at great length in Washington to people about this matter. I will make my third point on the auto pact because I will forget it. When the sectoral initiatives were being talked about a year ago, they were a very attractive thing. We might go in other sectors the way we did in the auto pact. In my opinion, it just is not on. The Americans are not willing to talk to us on a sectoral basis, and whatever else we make on it, I just do not think we will get anywhere.

The Americans listen politely to any initiative we make, but all the time behind the scenes when that initiative was going on last year any American I talked to, including then United States Trade Representative Brock, expressed scepticism; so it is my opinion that further bilateral sectoral policies of the auto pact type are not on. It is not that I think they could not be useful, I just do not think we are going to get anywhere in that direction.

Mr. Morin-Strom: Is that not resignation? Canadians have found one area where they have been able successfully to negotiate a reasonable agreement that gives us considerable benefits. Now Canadians are saying, "We may as well resign from doing that again because we do not have a chance."

Dr. Lipsey: I believe in being a realist. I just do not think it is on. I think that is the nature of the thing. The auto pact was a very special case. For one thing, we got the auto pact through the General Agreement on Tariffs and Trade because at that time it was possible to argue the North American market was segregated from the rest of the world by virtue of totally different cars. It is not any more, but then it was.

Similar pacts would run into real trouble with GATT. Indeed, the Department of External Affairs in its grey paper, if I might call it that, made as one of its main points that it really thought it would not get through GATT.

Let me say, finally, that all approaches should be pursued and if anyone thinks there is an advantage, a possibility of getting somewhere in a sectoral agreement, I would not oppose it. I just say that, at least in my opinion, from talking and from seeing the special case of the auto pact, I do not believe we are going to get significant trade liberalization through sectoral agreements, but for goodness' sake, why not try? I would not oppose it.

Mr. Morin-Strom: What about an auto pact with Japan and South Korea?

Dr. Lipsey: Sure, absolutely.

Mr. Chairman: One of the arguments we are hearing is that we should give a carte blanche proposal, if we talk about freer trade, in order to get the attention of the United States. Maybe we did not get their attention when we were talking sectorally.

Dr. Lipsey: I think that is right.

Mr. Chairman: The scenario changes, and it may be we have their attention now on the lumber industry. Maybe we can start talking about the lumber industry and some other industries we are interested in now. Surely those things can change from month to month.

Dr. Lipsey: I would not oppose that. Indeed, just as multilateral negotiations can go on through GATT at the same time as we can talk to the Americans bilaterally, I am for pushing any possibility of opening out our trade options. If anybody thinks there is something to be gained by a sectoral agreement, let us push it. However, I am pessimistic that we will see a significant amount of enhancement of Canadian trade through it.

Nobody has a crystal ball; so I would go to the Americans and say, "We want to talk to you multilaterally, and we would like to see whether we cannot have some bilateral arrangements as well." We know that comprehensive arrangements will take a long time; so let us see if we cannot push the sectoral ones.

However, we did try for a year, and my opinion--you will hear more about this when you talk to people in Ottawa--is that after years of negotiations the general feeling was that there was not much to be gained from this.

Mr. McFadden: On page 5 you cite the beer industry as an example; I assume it is meant to be more illustrative than specifically related to that industry. We have heard from several witnesses, and I think the brewers may well be appearing here in due course with regard to their concerns. Were you using beer just as an example, or were you suggesting the beer industry would be a major beneficiary of a free trade agreement?

Dr. Lipsey: It was partly illustrative and partly because I thought it would evoke the question I just got.

Mr. McFadden: All right; you have got it.

Dr. Lipsey: The beer industry is a typical case in which provincial legislation has encouraged a large number of small producers. Free trade would require rationalization. Some beer firms would disappear, but without much doubt, in my view, the Canadian beer industry as a whole would suffer a gain. It is a typical example of where there would need to be rationalization; some firms would disappear, but the total Canadian penetration into the US market would be increased.

Mr. McFadden: What you are suggesting, if we take the beer industry as an example, is that if it were to be able to penetrate the American market, it would require an adjustment period.

Dr. Lipsey: Oh, sure.

Mr. McFadden: Very clearly it would have to rationalize its production plants, the number of production plants, even its machinery and so on and so forth. It might also have a net effect, nationwide, on employment levels and so on.



Dr. Lipsey: Yes. I do not have any econometric model that tells me what would happen to the total demand for beer, but I would be willing to take a small bet that it would go up. But rationalization, yes.

Let me say one thing there. One of the things we must do in this, if we go for free trade with the United States, is to push for a differential adjustment period. Two years ago I would have been absolutely sure we would get it. I am not quite so sure now, but I still think it is one of the big bargaining things.

We have a bigger share of our economy involved in foreign trade than the Americans do, and therefore a differential adjustment period is important. I would like to see American tariffs come down over, say, four years and ours over eight--something like that. That is where I think we start.

Second, there must be all kinds of support and transitional arrangements made to support those people in areas and places who lose jobs even though jobs are available somewhere else.

A lot of people have said the Americans will not buy that. The Americans are very upset about general subsidies in Canada, and we know we are under a lot of attack on that. However, in the context of a free trade arrangement, I am absolutely certain the Americans would accept almost any adjustment mechanism and support we get as long as it is clearly sunsetted, as long as this is a five- or seven-year program to support those people who lose particular jobs and have to move into other jobs.

One of the key points we want to make when we go to them is to say, "We are going to end up with free trade, but we are going to have all kinds of adjustments to help the transition mechanism." You cannot tell until you try it on them, but I believe they will accept that, provided it is sunsetted, provided we say not that it is going to last for ever but that it is clearly five to seven years. This would be a case in point where some kinds of adjustment programs would be needed to help the transition.

2:50 p.m.

Let me say one other thing about this. We often tend to think of a static economy and suddenly, when we put free trade in it, the whole world changes. The Economic Council of Canada, in its study of Canadian firms, showed that in a typical Canadian industry over a 10-year period, 40 per cent of the firms disappeared. At the end of the 10 years, 40 per cent of the firms that had been there at the beginning were not there; there is a continual, constant turnover in trade.

Those were jobs lost. Forty per cent of the specific jobs in a typical Canadian industry were lost in the sense that the firm went out of business. However, new firms entered; so the total employment did not change. This turnover is there and it is happening all the time. We are not talking about suddenly taking a static economy and hitting it with a shock that will cause an increase in the turnover. The adaptation of an industry is seen in

the rate at which new firms come in. When you have a recession, new firms are not formed; so we get a rise in unemployment because there are no new firms formed to give jobs to the people who lose them in the old firms. Then the boom comes along and the new firms are formed. But that turnover, which amounts to 40 per cent of the firms in a typical industry, is happening all the time.

Let me make one other point and then take the question.

The impact on the economy of changes in the exchange rate and in interest rates is enormous compared to what we are talking about in terms of removing tariffs of five to 10 per cent and trying to get a handle on American nontariff barriers. Since the beginning of the year, the American dollar has had a 10 per cent depreciation; a 10 per cent change in just three years. We have had enormous changes in the value of our dollar over these times. These shocks are impacting on the economy all the time, and people adjust to them.

We are talking about something that is important but, in terms of the shock on firms, it is not of a greater order of magnitude than the shocks they are adjusting to all the time. We do need that sense of proportion, that we are not suddenly taking a static world and hitting it with a shock that is unprecedented and does not happen all the time.

I am sorry; I did cut off a question.

Miss Stephenson: One of the things we heard this morning was that as a result primarily of the Tokyo round, in the areas of textile and shoe manufacturing there have been periods of adjustment that were suggested to companies and nontariff measures were introduced, quotas, etc., to provide the firms with an opportunity to adjust and adapt to the new circumstance. However, they have not adjusted or adapted, and every year they come back and ask for the quotas to be maintained. Why should it be different for other firms from what it is for the textile and shoe manufacturers?

Dr. Lipsey: It is a basic principle that if you give people time to breathe, they use the breathing time rather than behave in a crisis.

The key thing is that to sell it to the Americans, these things have to be sunsetted; and if they are sunsetted by treaty, then a textile firm knows this quota is going to end in five or six years. That is very advantageous from our own point of view, because we are saying, "We are going to cushion you, but you have to make some adjustment over that period." If we give them an open-ended thing, as you say, five years later they will be coming back and saying, "We have not done anything; give us the quota back." It is critical that those things are sunsetted.

Mr. Chairman: You have suggested--I think I read it in your book--that to negotiate it, the Americans would do a number of things. You have even suggested our adjustment period could be twice as long as theirs. When you say we cannot get anywhere in the sectoral approach, it seems hard to believe that they would

ever enter into an agreement that would give us a much lengthier adjustment period. You have indicated we could insist that there be no further countervailing procedures and so on in the United States. Is that realistic?

Dr. Lipsey: We cannot tell until we try. As I have said, two years ago I would have put my hand on my heart and said, "I am sure we will sell that to the United States." I am not so sure now because of rising sentiment against trade liberalization in the United States.

However, there is no question the administration wants it. The administration wants it, among other things, as a lever to persuade the European Community, Japan and the rest of the world that further trade liberalization is a good thing. The President's economic report clearly stated this last year; bilateral trade agreements were seen as a lever towards getting further multilateral trade agreements.

It is very easy to argue, and the case will be sympathetically listened to--that is all I can tell you--that since we have a bigger proportion of our economy engaged in trade than they do, our adjustment problems will be bigger and some differential in the adjustment time is needed.

Professor Wonnacott had a very good idea when he said we should take one per cent off every tariff each year. That seems very fair, and since our tariffs on average are higher than theirs, it would have the effect of making our adjustment longer. But we do not know until we try.

Second, I am almost certain that sunsetted transitional support methods will be agreed to, because the end is what they want, which is a free trade agreement. But we cannot tell until we try.

Let me say one final thing. Just because we decide, if we do decide in September or October, to go to the Americans does not mean we have to buy what we get. I do not know what they will do. I do not know how unreasonable they will be.

The Canadian negotiators are good. When I go to Washington, they say the toughest negotiators they meet in the world are Canadians: best-informed, toughest, hard. We do not need to feel any worry about our negotiators. If the best our negotiators can do is an agreement we do not like, we just do not accept it. We cannot tell until we try.

Mr. McFadden: I have a question about a point that was made earlier, and I want to follow up the point you just made. You mentioned, and I agree with you, that during a period of 10 years 40 per cent of the firms that existed disappear but other firms come in to replace them. Are you familiar with any models or statistics that would indicate the jobs that are created and how they relate to the people who lose their jobs?

What I am getting at here, as you can probably tell, is that over time the mix of jobs changes. It may be that we wind up with



about the same net number of jobs in the economy, although we have had increasing unemployment during the past 10 years. However, could it not be the case that a portion of the 40 per cent who lose their jobs wind up unemployed and perhaps even unemployable because of their age or their particular training? They are not very susceptible to going into computer programming, say, and the new jobs being created take in the recent graduates from university and those people who are most adaptable to new circumstances.

Are you aware of any studies that would give us an indication of how that breaks out? It seems to me that one of the concerns people have about free trade, the liberalization of trade or whatever you are talking about is the danger for people who are particularly vulnerable, that suddenly whole communities or whole employee groups could find themselves without work for a long time. It would be more than just a brief adjustment period; it could be almost a lifetime problem. I think that is a matter of concern to everybody here.

Dr. Lipsey: That is right. Go back to my grandfather. At 55, when your business evaporates and you lose your job, that is tough; but it happens now. There are differential problems just because of the fact that the economy is inevitably changing. These problems exist today. It is not at all clear that they will be greatly increased by the freeing of trade.

I refer you, though, just as in your specific example, to the Economic Council of Canada. I think the chairman mentioned that you are meeting them.

Mr. Chairman: Yes, we will be.

3 p.m.

Dr. Lipsey: They have made some follow-up studies of exactly the sort of thing you have been talking about, actually trying to follow up individuals to see what happens to people in this 40 per cent of the firms that disappear: how easy it is to find jobs, how long they stay unemployed and whether their age, experience and so on matter. The economic council is somebody you should talk to a great deal about that.

I would like to come back to that point at the very end, because the other point I will make at the end is that these adjustments are going to occur anyway. They are occurring because the world is changing. There is a growth of the mix. There is an enormous impact on the world of rapid change.

The question is, what is the climate in which this change is going to occur? Are we going to do it like Europe did and has been doing now, in a climate of low demand, a lot of unemployment and a static economy, or are we going to try to do it in an economy that is globally having a boom and where the total number of jobs and investment opportunities are increasing?

My view is that these adjustments, which will have to happen anyway, will have less human suffering and harm caused by them if

we can get them in a climate of an expanding rather than a static economy. I would like to come back to that at the end.

Mr. McFadden: I have one other question. We have been hearing different opinions about Canadian negotiators here. In the past week or so, they have been referred to as everything from vestal virgins to Clem Kaddiddlehoppers. From information you have received from American officials, you have described them as some of the toughest, if not the toughest, bargainers in the world.

I am curious to know why you think some of our witnesses have a particularly negative view of their effectiveness and why the Americans seem to think they are so good. Is this a function of what the Americans get out of us, or is it a function of how hard we negotiate?

Dr. Lipsey: I am afraid I have not read that particular evidence you have heard, so I do not know who said it. In my off-the-cuff comment a minute ago, I was speaking to what Americans say to me; of course, that is prejudiced evidence in some sense. However, I know some of them; in my opinion, they are some of the toughest people I have ever argued with.

Finally, let me give you some real evidence. Professor David Leyton-Brown studied every conflict that had taken place between Canada and the United States since 1945 and came to the conclusion that we won exactly half of them and lost half of them. That is not bad for the mouse and the giant. It does not conform with the view that we always lose when we go up against the Americans in some kind of disagreement.

The other thing he discovered was that when the conflicts became public and politicized, we tended to win far more than the ones that were not public and politicized. This suggests that one of the things Americans do not like to do is to show their muscle against a small country when it is public; and this is going to be about the most public set of negotiations that ever took place.

The Americans want this as a test case for liberalizing trade throughout the world. There are two things they are particularly interested in; one is services and the other is some form of nontariff barriers. They want nontariff barriers reduced in the rest of the world even though they are one of the biggest sinners at the moment. They would like a path-breaking thing on services, which greatly interest them.

Because they want it as a test case for the world is one of our biggest guarantees that they are not going to try to screw the last bit of advantage out of us. They want something to go to the rest of the world with and say: "Look, we can liberalize trade. We can come to agreements that are mutually advantageous."

If they ever got us backed against the wall and screwed the last little bit out of us, they could not go to the rest of the world and say, "Look, this is a model." Because they want it as a model for the world is almost the best guarantee I can think of that we will come out even. I will not say any more.

Mr. Taylor: I was about to ask this question and you have actually answered it in advance. It was the question of motivation on the Americans' part even to talk to us. We seem to assume that everybody is waiting for us to make a deal. It is an assumption I have never made.

What you are saying is that in effect this would be a pilot project for the Americans or, as you have expressed it, a model. Do you feel that is sufficiently strong to ensure there will be negotiations, not that negotiations will end up evenly or whatever?

Dr. Lipsey: It is sufficiently strong because that is the administration view, that if we come to them there will be negotiations. The thing nobody knows is what happens in the Congress once the two administrations have struck a deal.

I should mention that it is important that this goes through on the famous fast-track procedure, that it is not a treaty that gives the Senate a chance to attack every single issue, to take this out, to add this and so on. With the fast-track procedure, as you know, Congress merely votes yes or no; so once a deal is struck and it goes through on the fast track, Congress cannot chip away at it piecemeal. That is the big reason.

When the Americans first got worried about the unwillingness of the rest of the world to trade-liberalize further, they invented something called aggressive reciprocity, which meant every time they felt the Europeans were being tough with some concealed tariff or subsidy, they put in a tariff. They would hit them on the head because they were being hit on the head.

The Americans quickly came to the view that they were shooting themselves in the foot and it was not getting them very far because they were inhibiting their own trade. They switched from the idea of aggressive reciprocity, "You hit us and we will hit you," to the idea of the model, the example, "Let us go and find ways of getting free trade arrangements with other people that will then stand as an example to the GATT."

Mr. Taylor: I have another general question that covers the ground you have covered so far.

Having participated in these hearings, I sense there is a difference of view among the members on this committee. On the one hand, you have the view that Canada should adopt a posture more like Third World developing nations in ensuring that anyone doing business there must either provide something they cannot provide themselves and then go into joint partnership or else by domestically--it is a manifestation of Professor Rotstein's self-sufficiency.

On the other hand, at least one on the committee--I will mention myself--happens to believe we have a global market and that if we do not want to take in each other's laundry for a living, we had better get out and hustle and deal internationally, and presumably competitively. Implicit in the self-sufficiency view is a lesser need for competitiveness. Perhaps my New Democratic friends can assist me.



Mr. Mackenzie: You surprise me. That is not what you told me at noon. You said you did not have your policy line in mind yet.

Mr. Taylor: You were asking me about the party. I am stressing my own views at this moment, which I may say are always susceptible to change. You know I have great potential in that respect. That is a view that I think has been encouraged by my New Democratic Party friends and manifested in submissions from the Ontario Federation of Labour, Cliff Pilkey, Mel Watkins and others.

Miss Stephenson: The Communist Party of Canada.

Mr. Taylor: We had the Communist Party of Canada.

Miss Stephenson: Which is very much a self-sufficiency--

Mr. Morin-Strom: The Ontario Federation of Agriculture.

Mr. Taylor: My question to you is, and I suppose it is really not a question but an expression of your view, how comparable is Canada to Third World developing nations that adopt a certain posture to generate domestic industry?

Dr. Lipsey: Most of the Third World developing nations, including the smaller ones that now have made it, such as Singapore, and some of the great successes did start with inward-looking policies. They put tariffs and other restrictions on trade to build up a home industrial base. They were too small for it to be satisfactory in the end and the second stage was to open up and move into trade liberalization.

3:10 p.m.

As I see it, that is exactly what we did with the national policy in the 19th century. We, and I think I would have supported it at the time, used tariffs to build up an industrial base in Canada. What we now find is that our firms are able to compete, sell abroad and export and we are at the second stage. We got there a little faster than the now-developing countries. In order to get continued growth of markets and continued rise in living standards, we have to open up to further trade abroad. We went through the same steps they went through so I do not think we are much different; we are just a little further along the way.

Mr. Taylor: That is the point I was trying to clarify.

Mr. Morin-Strom: I do not think we have ever used the Third World as an example.

Mr. Taylor: We certainly have not mentioned a Third World country.

Mr. Morin-Strom: Japan would be a much better example of a country that has protected its home manufacturing industry considerably to the exclusion of imports.

Mr. Taylor: Again, before that is responded to, what I

was trying to distinguish was the difference between Canada's present economy and state of affairs as opposed to the state of Third World countries where they do have the protections we have just been discussing, so you cannot put us in the same boat. What you are doing now is saying that you agree with that; or are you saying that? Now you want to compare us to Japan.

Mr. Morin-Strom: You are the one who was saying that the New Democrats were using Third World countries as an example. We have never done that. I was suggesting a country that you might use as an example.

Interjections.

Mr. Chairman: I wonder if we could get back to a straight question to Professor Lipsey.

Dr. Lipsey: We were a Third World country in 1880 or 1890 and, like them, we have progressed beyond that. But if you take a look at the ones that have been reasonably successful and the ones such as Argentina, which I quoted, that have not, the difference is that when they got the industrial base they then looked outwards and they looked to expanding trade as opposed to just thinking they could build a high living standard solely by protecting the home market. They did that to build the industrial base and so did we.

Now let me come to one of the key policy issues on which you have heard divergent views. Will there be a serious loss of jobs, at least in the transitional phase of a move towards freer trade with the United States? Mel Watkins told you the following: "Even those who see increased employment for Canadians under free trade with the United States see it as a long-run possibility and concede considerable job disruption and the risk of higher unemployment in the short run. That is the main thrust of many of my orthodox colleagues."

It is a shame to me that Mel Watkins did not feel it necessary to back up his assertion with references. To the best of my knowledge, there is only one economic model that is designed to estimate an answer to the short-run effects of a free trade agreement with the United States on employment in Canada, a model that is based on real cost data for Canada and the United States. This model is not the last word on the matter--we will never have the last word on such difficult issues--but it is the only attempt to take this issue out of the realm of guesswork. This is the model constructed by Professor Richard Harris of Queen's University.

In a paper presented to the conference organized by the Ontario Economic Council, the proceedings of which will be published in the fall, Professor Harris reported the results of his calculations. The immediate short-term effects of a free trade agreement with the United States would be to increase Canadian employment--and I did say increase--by 5.5 percentage points. I confess to you that when I heard this report I was surprised, indeed sceptical, but since then I have thought about what is involved and I see no reason to doubt Professor Harris's

estimates, at least in the broad sense.

The reason for this result is what economists call trade diversion. Canadian exports to the United States get a large advantage by entering the US market duty free while their competing products from third countries still are subject to tariffs. This gives Canadian exports to the United States an advantage in the US market.

You may ask, however, surely American exporters to Canada get the same differential advantage by entering Canada duty free while third country exports still must pay the tariff. The answer is yes, and this is where our advantage of being small comes in. The same proportional advantage to both countries means that American exports get an advantage in a market of 25 million people, while Canadian exports get the same relative advantage in a market of 250 million people. The net effect of this is that Canadian firms get the same proportional advantage but in a large market while American firms get it in a small market.

It seems to me this must be one of the most important numbers ever calculated in the context of a practical Canadian policy debate. It means the quite understandable fears of labour may be mistaken if a free trade agreement between the two countries gives a large differential push to Canadian employment.

Here we have an example of what I have so often seen in the past. The country with most to gain does not know it, and if the facts were generally appreciated, the country dragging its feet would be rushing into an agreement, while the one pushing for the it would be more sceptical.

I hasten to add I think Americans have other things to gain from a free association with Canada. My private advice--I guess everything is on the record, but it is not in my brief--is tell labour, but do not tell the Americans. That is really a very interesting number.

I would like to just proceed on the employment issue and then take any questions, if you would like. Harris is looking at overall macro effects, while I think Premier Davis is at least--

Interjection: He is no longer the Premier.

Dr. Lipsey: I am sorry, I am behind the times, am I not?

Premier Peterson was at least quoted as calling results "theoretical." What else can we be, of course? We are predicting the future; it is all theory in some sense. Concerned people want detailed evidence, exactly who will gain and who will lose. The answer, quite frankly, is that no one knows or is able to tell in advance in full detail.

Consider an analogy. You have a hand grenade on the table and you call a ballistics expert to ask, "What will happen if I pull the pin?" He says, "There will be a hell of an explosion and the overall results will be so and so." But you ask: "Tell us the details. Where will each piece of shrapnel fall? Will I be hit, or



just my neighbour?" His correct reply is, "I cannot tell you, nor could anyone else." Surely this is no reason for rejecting his macro advice.

The main reason we cannot tell is that evidence from the European adjustments to the formation of the European Community and from Canadian adjustments to the Kennedy round of tariff reductions, which are very well documented by the Economic Council of Canada, tell us much of it will be within industries; some product lines will flourish and be exported, others will no longer be produced and will be imported. No one can tell in advance what the whole list will be, but the overall effects will be lower costs, greater international competitiveness for Canadian exports and a net increase in total employment.

It is unsatisfactory to have to say it, but I think I am no more in the position to predict than the honest ballistics expert.

Let me give you one other case. In 1900, 50 per cent of our employment was in agriculture. If someone had come before a committee and said, by 1970, within one lifetime, it would be five per cent, he would have asked where those 45 per cent of all the jobs in the country were going to go. He would have wanted to know what was going to happen, and asked, "Should we not support the agricultural industry in order to preserve those jobs?"

Nobody could have told him. I would like to mention that if some nut had come before a committee in 1905 and said employment will be generated by this crazy, smelly product that is the plaything of the rich and that half a dozen people are producing in their backyards, they would have laughed at him; that was the automobile industry. Indeed, if they had said, "Let us push some new high-tech industry," they would have gone for Zeppelins because that was the upfront, high-tech industry at the time.

We do not know, but that does not mean jobs will not be generated. They were generated in the past, in the face of change. In detail, we cannot tell. The key reason is the one I just mentioned, that so much of the adjustment is within an industry. That is what happened after the Kennedy round. In every industrial line affected, with I think one exception--the figures are in my book--our exports increased and so did our imports. We specialized in particular product lines.

3:20 p.m.

I do not care how much money I had given an economist in 1955, he would not have been able to say, "It will be this product line in women's clothing that will go and it will be that product line that will not." It depends on an individual entrepreneur; it depends on dozens of things, and you cannot tell.

I was in Europe for 17 years. I lived in England. I was around, because I wrote my thesis on free trade areas, at the time of the signing of the Treaty of Rome, and the same worries were expressed and the same questions were asked: "Tell us where it will be. Tell us where the new jobs will come from when we take down tariffs and expose British and French industry to competition

from the Germans."

You could not, but what happened was just the same thing. Most of the adjustment was within an industry, and that, of course, makes it easier. It is easier to readjust within an industry than to have to close down one industry and open another.

Economists, working with a kind of simple model in which an industry sold a single product, thought of the wine industry disappearing in one country, the automobile industry in another and so on and industries closing down. Of course, it did not happen. What happened was that every country specialized in particular product lines. International trade and employment flourished in Europe, and it flourished because cars produced in every country were exported to other countries, passing en route cars produced in the other country that were coming back to this country. That is what we saw in the Kennedy round in Canada and that is what we will see again.

The report of the task force on clothing suggests exactly that. Even though it was sceptical about free trade, it actually documents all kinds of ways in which particular product lines will expand and others will contract. It is a very interesting report to read. The details of the report do not really support its final anti-free-trade position. Indeed, if you look at it, it is really quite favourable.

Again, in further detail than that, nobody can know. If we want really detailed evidence of which product line will grow, which little area will expand employment to offset the other one, we will never know and we will still be asking ourselves the question in 15 or 20 years' time.

That is my confession. Not only do I not know the detailed answer, I do not think anybody can. I think we must look at the broad issues and we must look at past experience to get some idea of what will happen.

I will come back to that once more at the end, but those are my comments on the general issue. I would just draw your attention back to the Rick Harris number that overall employment expands rather than contracts as the impact effect of trade, and I think that goes against the conventional wisdom. As I said, it certainly was a surprise to me.

Mr. Knight: The only question I have on that concerns the words "immediate short-term effects." I think we have heard there will be quite a bit of dislocation in the short term because even those firms that are going to benefit from the advantages of being able to export now to a larger market have to retool and get themselves in position to get the production runs necessary to expand at that particular pace and, in the meantime, the American firms that are already there are going to be able to get the jump on us. Coupled with that are the industries that unfortunately, as you say, we are going to lose.

Are you saying this is an immediate short-term benefit? What kind of time frame do you mean by "immediate short term"?

Dr. Lipsey: If I were a politician, I would be willing to fight an election two years after the free trade era on the results of what had happened, so that is the kind of time frame I am thinking of.

Mr. Taylor: In opposition to government?

Dr. Lipsey: No, the government. I am sorry. I was only slightly facetious.

When you talk to people--and I have heard several businessmen who I think are in threatened positions talk about it--they are talking about removing the tariff: a 15 per cent or 20 per cent tariff gone, finished. That would then produce the results you mentioned. But we are talking about a slow process by which tariff and nontariff barriers are reduced during something between a five-year and a 10-year period.

Furthermore, I think this is important--and we will sell it--that they were reduced faster in the US than in Canada. So we get the advantage of the expanding market before we have to adjust to the import penetration. It is important to remember, however, that a lot of the worries that are expressed, indeed some of the bits of modelling that are done, just say: "Here is the situation. Now let us take the tariff off."

That is not what we are going to do. We are going to reduce it slowly over time and, I hope, differentially. There are five years for the adjustment to occur. I would say, almost immediately, sales and employment opportunities will be expanding faster in total than they will be contracting. My answer is almost immediately.

Mr. Knight: After the five-year period?

Dr. Lipsey: No, right at the beginning. The first year the American tariff goes from five to three and our tariff goes from 10 to nine. The differential is added in the American market. The fact that we start taking off tariffs faster in the United States than in Canada means that right from the beginning the expansion effects are bigger than the contraction effects. I certainly would put my political future on it. I would bet some money on it as well. That is all I can say on that reasoning and looking at what happens.

The other thing I can warn you about is to be careful when people talk about this to ask yourself: "Are they going from what we now have to zero overnight? Is that what they are thinking of?" Nobody in his right mind would agree to that.

Mr. Knight: What is Professor Harris's modelling, his 5.5, based on? Is it immediate?

Dr. Lipsey: No. You want to get the paper. Unfortunately, it is not published. I heard him give it verbally. I should refer you to that, but I believe it to be based on a gradual reduction in the tariff rate over a period of time. I do



not want to be held to that. I have asked him for the paper, but apparently it is being revised and about to go to press.

Should I skip ahead? We are running behind.

Mr. Chairman: Go ahead.

Dr. Lipsey: I mentioned the organization problem only because you were talking about further work. Although I think Professor Watkins was far too extreme in what he said, there is the general issue of how much a free trade arrangement with the United States would force us to harmonize some of our social and industrial support and tax and other policies.

That is a very important issue. The main thing is that we are already under great pressure. We are an open economy with free trade with the United States and we must be very careful about having policies that differ greatly from the United States. The pressure for some harmonization is still there.

I do not see that it has got any worse since Canadian tariffs have come down from 1950, when they were high by historical standards, to where they now are. I have never seen a single piece of work that argued that we were forced into much greater harmonization to that point. Why we would suddenly be forced into a great deal more harmonization, when we take the final step, I am not at all sure.

It is important enough that the C. D. Howe Institute is doing a piece of contract research. As concerned Canadians, we want to know. We also want to know what to tell the negotiators, when they get into it, what they should look out for. We are trying to ferret out detailed evidence and work over the summer to be published at the end of September on where, if any, there will be significant harmonization problems we do not already have. That is a key issue.

The final point I will make on that issue is that we believe in some ways we will get more independence. Right now we have to be very careful when we think of subsidizing a low-income area in Canada, or some particular industry, in case the Americans turn around and countervail it. The American countervail procedure is changing dramatically. We have just seen the tip of the iceberg.

3:30 p.m.

For example, up to now, generally available subsidies are not countervailable. If you subsidize research in one industry, in steel, that is countervailable, but a general research and development subsidy is not. There was a recent court case in the United States suggesting that generally available subsidies may now become countervailable.

Look at the generally available subsidies we do produce in Canada. If that becomes countervailable, our current sovereignty is going to be severely restricted. Treaty-protected access into the American market, where further increases in American nontariff

barriers are ruled out by law, would remove that effect and, I believe, give us more sovereignty to pursue particular policies that are classic Canadian policies of subsidizing lower-income areas.

In the book we suggest that we think we could have got around the famous Michelin tire case and reversed that by allowing regional subsidies to be noncountervailable. We think there is a pretty good chance that we could persuade the Americans to countervail on the lowest available costs. What would the costs have been if that plant had been in Ontario?

If, in their view, we choose to shoot ourselves in the foot by subsidizing some tire plant to go to a high-cost area in the Maritimes, that is our business, but it is not countervailable because we are not reducing costs from what they would have been if we had just let the market operate. We think there are many ways by which we can contain these nontariff barriers and, therefore, get more policy independence than we now have.

Finally, let me address what seems to me to be the basic question on which a committee such as yours must take a view. This is the key question and one whose full answer requires a crystal ball. None of us, sadly, has such a ball, but we must take a view. This is what I call the base case. What will happen if we leave the present policies in place and stay with the status quo? I mean the status quo of present policies, because I do not believe that would leave the economy where it now is.

The current approach is to fight piecemeal defensive actions against the rising tide of American protectionism, as we are doing all the time in the lumber case and other such cases, and to rely on a new round of GATT negotiations to achieve further enhancement of Canada's foreign trade prospects.

This approach seems to me to be fraught with risks. Let me give you the two main ones. Canada will find it increasingly difficult to protect itself from the growing tide of US protectionism on a piecemeal basis. This threat is a very serious one. It is a threat, I think, not fully appreciated in Ontario, because the very strong US recovery, combined with an overvalued Canadian dollar against the US dollar--estimated to be about five per cent--has buoyed Ontario industries. This prosperity is seriously threatened by the rising risk of US protectionism, from which we have only just begun to suffer.

Second, the upcoming round of GATT negotiations is unlikely to achieve significant trade enhancement, given the current attitudes of the major participants. The best that may be achieved is a successful rearguard action against the growing worldwide tide of nontariff barriers. In any case, the negotiations on such tough issues as contingent protection will take many years--10 years is a number I see estimated--before we get any effects working through the system. So Canada must wait at least a decade for any assistance from that direction.

Thus, our prospect during the next decade with no change in current policies is steadily reduced access to the United States market and no increased access to world markets as a result of new GATT initiatives. This situation seems to me to be dangerous to Canada as a whole and to Ontario manufacturing in particular in ways that I think have not yet been appreciated but are only a very few years down the line.

Let me give some of the reasons I think it is dangerous. First, the old, hackneyed thing. It leaves Canadian industry without secure access to a large market, it being the only industrial country apart from Australia without tariff-free access to a market of over 100 million people.

Second, it does little to force Canada's economy's needed adaptation to the increasing competition from the newly industrializing countries. We need the impetus from trade liberalization with the United States to encourage further rationalization of the economy in order to move up market in products such as textiles, footwear, clothing and a host of other products where the challenge of the NICs is greatest.

This rationalization has already proceeded quite some way under the impact of GATT-negotiated tariff reductions during the last three decades. If we try to freeze our present industrial structure so that we end up producing exactly the same things as the NICs, it is a battle we will lose in the end. More important, they are an expanding market that we will want to exploit at some time. The only way we can exploit it is by buying the things they produce and then selling to them upmarket goods that they do not produce.

Second, it leaves in place the existing incentives that Canadian firms wishing to serve the North American market have to locate factories in the United States to avoid actual and anticipated US trade barriers. The flow of Canadian direct investment to the United States is already large and it takes jobs with it.

Survey evidence, particularly by Professor Don Daly at York University, suggests that unless something is done to change incentives, the flow will grow rapidly in the near future. This problem is so large that it is not unreasonable to talk of a haemorrhage of Canadian capital flowing abroad and taking investment with it.

There have been a number of studies made of the reasons for successful Canadian exporters moving to the United States and several reasons are given, but the dominant reason is access. That is the one that keeps coming up, access to the American market. Free trade will not remove all the reasons for Canadian firms to move, but it will reduce one of the key reasons and, therefore, without any question reduce the flow of Canadian investment to the United States.

These are worrying matters. I believe if we continue with our present policies unchanged, Canada will drift, slowly at first



and then ever faster, into trade reduction rather than trade enhancement with the consequent loss of living standards and job opportunities to Ontario in particular and to the country as a whole in general.

In conclusion, I come back as promised to my grandfather's experience. Would Canadians in general and, the irony of it, current auto workers in particular, now be better off if the government had protected my grandfather's job by subsidizing carriages and suppressing the automobile industry? Of course not. The moral to the story is that change is always with us.

The right government policy is to facilitate change and protect those who suffer by transitional arrangements. Change is upon us now. The growing importance of the NICs--and China is a great joker in the NIC woodpile--ensures that rapid change will be forced on our economy. The economy must, and will, adapt, a point forcefully made in all the briefs by the BCNI.

Europe provides an example of an economy forced to adjust in the context of a stagnant economy. This has been a very painful experience for Europe over the last five years. How much better if the inevitable adjustment to the Canadian and in particular the Ontario economy takes place within the context of an expanding economy where, globally at least, job opportunities are expanding rather than being static or declining.

This is what a free trade agreement offers us, a chance to have the Canadian economy adjust to the type of brand economy we would like to see in the year 2000, but to do so in the context of expanding markets and--see Harris's evidence--growing employment opportunities. If we miss this opportunity, the adjustments will occur anyway, but they will occur, as they are now doing in Europe, in the most unfavourable macroeconomic context.

If we seize the opportunity and go for free trade with the United States now, we have a chance of having our cake and eating it too. Difficult, no doubt painful, adjustments will be carried out in the context of an expanding economy. Never in my opinion has such a favourable opportunity arisen for the Canadian economy. An excessive caution and a demand to know for certain all of the detailed consequences may cause us to throw this opportunity away.

That is the purple passage of this presentation.

Mr. McLean: Dr. Lipsey, what effect do you think free trade would have on the agricultural industry in Ontario?

Dr. Lipsey: If you want my honest answer, my guess is that the problems are going to be such that agriculture may be left out of the agreement. There are very serious problems because, particularly those industries, not just in Ontario, that have provincial marketing boards which are supported by restrictions on imports from the United States and elsewhere really are incompatible with free trade. I see three possibilities. First, include them completely with a transitional agreement, in which case the adjustment would be enormous,

probably the biggest adjustment of any sector in the economy I would guess. That is the kind of pure position.

3:40 p.m.

The second extreme is that it is left out completely, in which case we must be a little careful we do not buy ourselves some of the troubles the Europeans have bought themselves by leaving agriculture out of their free trade agreement, or that if some kind of sectoral-specific, auto-pact-style agreement is made, we are given some liberalization of trade but some protection for our particular policies. I guess the second is the one I would like to see us try. It is probably unrealistic to expect the agricultural industry just to be thrown into free trade, given all the plans we now have.

Somewhere in this we should say, "If we take some intermediate position, could we allow some further freeing of trade and still maintain some of our policies?"

Mr. Chairman: Thank you very much, Professor Lipsey. Today we have had two very persuasive arguments in favour of free trade. Maybe you are slowly getting through to us and breaking down some of the biases some of us may have brought to the committee. I appreciate your coming and doing that. I particularly appreciate--I think we all do--that you have taken the time to review the activity of the committee thus far and to answer some of the issues we have raised.

There is one other housekeeping matter with regard to the Washington trip. We are attempting to change the Tuesday morning session, perhaps to Wednesday morning. We do not have an answer yet on that. That is in part because of a problem I have. It is also in part because of a problem the Conservative caucus has with regard to a Sunday and Monday session that week. Is that still on?

Mr. McFadden: At the present time, I am not sure if it is on or off.

Mr. Chairman: Will you let us know as soon as you know?

Mr. McFadden: I will try to find out for you before we adjourn tomorrow.

The committee adjourned at 3:43 p.m.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, AUGUST 22, 1985

Morning sitting



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Witnesses:

Bajor, L., Private Citizen

Atkinson, C. W. J., Private Citizen

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, August 22, 1985

The committee met at 10:09 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Good morning. This morning our first participant is Lisa Bajor. Every member of the committee probably knows Lisa by now. Of all the citizens in Ontario, she has probably taken the keenest interest in the deliberations of this committee.

As you can tell by the material she has distributed, she has done a lot of work in preparing her presentation this morning. She has indicated to me that she is going to touch on, among other things, the problem of interprovincial tariffs, which is one we have not been looking at very carefully.

MS. LISA BAJOR

Ms. Bajor: Good morning, ladies and gentlemen. Mr. Chairman, first I would like to say a few words on my background. I come from Hungary. We are very grateful to this country, which took us in and gave us the opportunity to live in a free society and a democracy. Everybody has an opportunity, if he or she is willing to work hard, to move ahead and achieve certain goals within his or her limits.

We were working very hard until recently and I was never interested in politics. As a matter of fact, I am going to be 55 years old in November. I think I have been in a courtroom twice. Once I made an improper left turn between 4 p.m. and 6 p.m. at Bloor and Spadina, and once I was caught speeding; somehow I came off the highway. But recently I have been picking up what I lost in the first 55 years of my life. That is my background.

I became interested in this--you may have heard of me--during the last beer lockout. We were surprised as small tavern owners--not just the small ones; everybody who holds a liquor licence in this province--at the kind of restrictions we had here. As the days went by back in March, we became more and more frustrated, because wherever we turned we were told: "We are going to look into it. We are trying to help." However, as everybody knows, business without cash flow is a disaster; it has to end in bankruptcy. It was just a matter of time before somebody, unless her or his business was paid off, went bankrupt.

Anyway, that is how I started. I turned to many people. We were looking for help, representing the small tavern owners and small businesses. Unfortunately, everywhere we turned we ran into a brick wall, four walls. Wherever we turned we were just banging our heads against the wall. That was the time I started to read



pamphlets, the British North America Act and the regulations and restrictions. That is how I figured out the only way we could do something was to go to court or to ask the politicians to do something on behalf of the small businessmen.

As you can see, I did my homework. I am not going to read all of them; I will have mercy on you. I just wanted to prove that I have read almost everything from the so-called experts, all the professors and others who were invited here and made speeches. I read what every person here was proposing to do.

Yesterday the biggest impact on me was made by Professor Lipsey, who touched basically on the main theme that nobody knows exactly if one does not try. When I started my one-woman crusade, if I may say so, with my background, my broken English and as a small businesswoman, lots of people said: "Do not try. So many people have tried. You are just wasting your time and money." I said, "If I do not try, I will never know."

Before I started the whole thing, I sat down and made two columns on a piece of paper. On the left side I put the worst thing that could happen if I lost the case, and on the right side I put the good things that would happen to us and to all those small businessmen. I am not talking about just the beer industry or liquor. There are many other things.

I have found in reading all these booklets that there are such restrictions, but I do not want to touch on that, because I am not an expert. I am not even an expert on the beer industry, but I have some idea, since I have been working in it and have lost lots of money, that there is something basically wrong.

I read somewhere that a very smart professor said one cardinal rule is that too much power frightens people, particularly when that power goes on too long. It is very simple, and I am trying to use simple, so-called kitchen language, because it is much easier for me, and maybe for you too. Anyway, Mr. Chairman, members of the committee and the press, thank you very much for coming to see me.

I am truly pleased to be able to appear before you to state my opinions on an issue as important as the distribution and sale of alcohol to the public. As you are probably already aware, I have found myself deeply involved in the growing campaign against the Brewers' Warehousing cartel. Some may argue that the word "cartel" is a bit too strong, but the behaviour of Brewers' Warehousing and of its protector, the Liquor Control Board of Ontario, would seem to back up my use of this word.

During the lockout of brewery workers last spring, the three big brewers, which in effect are Brewers' Warehousing, demanded that employees in all three companies accept the same terms in their contracts. The supposedly separate and competitive brewers were behaving more in the manner of a single monopoly. I feel that such behaviour is not in the best interests of the people of Ontario and that if the beer and liquor distribution system of the province were more open and competitive, we would all benefit.

I will make a little aside about competitiveness. Everybody knows that in a free trade business, competitiveness benefits the customers. All the people are going to compete against each other. Looking back over the past 10 years, whenever there was a sale on shoes because people wanted to get rid of them--they had put in too much money--wherever I went there were lots of sales and good buys. The only industries that never had any sales, never any discounts for anybody, were the liquor and beer industries.

The system as it exists today is not only out of date but simply unfair as well. The Brewers' Warehousing and Brewers' Retail system dates from the late 1920s, at about the time when Prohibition was repealed in Ontario. As such, it tends to reflect the hesitant and cautious manner in which both the government and society accepted the sale of alcohol to the public after more than 10 years of Prohibition.

It was felt at the time that the government could more easily control the evils of drinking if it restricted the sale of beer to certain stores. The government handed the brewers a monopoly on a silver platter--a monopoly the brewers have held on to for more than 50 years. While other provinces and jurisdictions in North America have adopted more open, competitive systems over time, the Ontario government has allowed the brewers in this province to continue with this archaic and unfair system.

The dismantling of the Brewers' Warehousing cartel, done in a well-thought-out and well-planned manner, would go far to improving the competitiveness of Ontario's economy. In addition to the direct benefits that would be enjoyed by the people of Ontario in such a move, it should also be noted that, given the emphasis placed by the current American administration on the free play of market forces, the removal of the state-sponsored monopoly could not but help to improve our position in the negotiations on free trade with the United States.

10:20 a.m.

Before getting into the hard economic reasons for opening up the system, however, we should stop to consider the morality of having such a noncompetitive and arbitrary system in an otherwise open democratic society.

Admittedly, certain services are best provided to society by a well-regulated public monopoly--services in which economy of scale and reliability of service dictate such an operation. Ontario Hydro can be seen as an example of such a natural monopoly. That is just my opinion; someone else might see it differently. Can the current system for the sale and distribution of beer be justified in such a way? Perhaps it is more accurate to view the Brewers' Warehousing system as a monopoly set up for the benefit of certain private economic entities rather than for the good of society.

Brewers' Warehousing is equally distasteful when such down-to-earth matters as job creation and consumer satisfaction are taken into account. The brewers like to use the supposed loss of jobs as a defence against attacks on their cartel. They have

recently sent letters to all MPPs--you will find one in these things--outlining their prediction of economic disaster for each MPP's riding if the system is changed, but can anyone really predict that more competition in any sector of the economy will result in a loss rather than a gain of jobs?

This threatened loss of jobs is also the reason given by the provincial New Democratic Party for not supporting the sale of beer in corner stores. In June 1985, the Toronto Star reported a meeting between Richard Davidson, the president of BW, and several prominent members of the NDP caucus to discuss this very issue.

Here we have the head of a powerful cartel, a cartel that had just recently locked out its workers and refused to meet their requests, meeting with members of a political party that has proclaimed itself to be the party of the working class. Meanwhile, the NDP seems to be most concerned with getting the union vote, even if it means dealing with a monopolistic organization that treats both union and nonunion employees in an unfair and arbitrary manner.

I would like to draw your attention to the clipping that says "YMCA" at the top. The reason I chose the "YMCA" is not a coincidence. When I was reading this article in the Toronto Star, somehow I thought I was reading about the Young Men's Christian Association and that small brothers were looking for a big brother to help them out. I do not know why, but that is how I associated it. I would like to read a few points from the article.

It says Mr. Davidson claims there will be a rise of "as much as \$3 for a case of 24." He was replying to the new Liberal government's promise during the election campaign that it would make some changes. I do not know where he gets his numbers and figures. Let me call your attention to some LCBO invoices that say "Holiday Tavern," for recent purchases.

If you take a look at all the invoices, you will see they show a delivery charge of \$184, a licence gallonage fee of \$93, a delivery charge of \$54, a licence gallonage fee of \$71, a delivery charge of \$115, a licence gallonage fee of \$100--it goes on and on. I just picked a few I have from the four years I was in business, but every one has gallonage and delivery charges already built in; so if grocery stores or any stores have to pay for it, they have already built it into their prices. It is here. They have paid for it.

Mr. Chairman: Is this an extra charge--

Ms. Bajor: It is an extra charge.

Mr. Chairman: --we would not be paying if we were buying retail?

Ms. Bajor: Maybe we would but it would not be an extra charge on the top; they are already charging delivery. I do not know what the definition of gallonage fees or gallonage charge is. They just use it as a fancy word and maybe no one ever challenged it. That is one thing that came to me.



Mr. Davidson, president of Brewers' Warehousing, came out with quite a few pamphlets in the last few months. I went to the Ministry of Consumer and Commercial Relations to make a complaint about these pamphlets. If you look at pamphlet 5, read the top part in blue and then go to the last page, 15, which has a question mark at the top, you will see it says, "We know from recent research that 91 per cent of the adult population express a clear preference for Brewers' Retail Stores as the place to buy beer." I do not know where they get the 91 per cent. That is not the only one; I have more, but I did not want to bring them in.

I had one that claimed 98 per cent. I would very much like to see their research. How dare they claim that? The population in Ontario showed very clearly in the last election that at best they are 50-50, maybe more. I am trying to be more conservative and am saying at least 50-50.

If you remember when Mr. Miller called the last election, I am not saying the most important issue was putting Canadian wines in retail stores but it was definitely the most-talked-about issue until the separate school issue came up just before the May 2 election. It is not a coincidence. Even if people are not involved in this industry as far as money or work are concerned, they can see it.

I had contact every day with my customers. I had 300 or 400 people coming in and out. I work every single day. In my tavern at the corner of Queen and Bathurst streets, every wino knows me and calls me Lisa. They came in and said: "Lisa, why do you not have Canadian beer? Why do you have United States beer?" Why could not the government go to Quebec or Manitoba when we needed the beer? Why would they rather go to the United States and dump all the expensive, imported beer which was rejected by the people of Ontario, not just because they did not like it or that it was a new taste; it was just like when you tell your child, "You have to do it this way," even if he would like to do something he was told.

It is similar to taking your wife or your mother out to a restaurant and you to order wiener schnitzel and the waiter says: "Oh no, our chef made a mistake. He was making fish and chips tonight. We are loaded with it and that is what you are going to eat tonight; either you pay for it or not." That is exactly the same thing.

How dare they they tell us what to buy with our money? Why could we not go to Quebec or Manitoba, even if it cost us a little more, during that time when we were looking all over hell; why could we not go to Quebec or Manitoba?

In the New Democratic Party, everybody is talking about looking for Canadian jobs. Where were they? Why did they not open their mouths? Were they not Canadian jobs in Quebec or Manitoba? We could buy the beer there. Instead, we went to Poland or Japan. By the way, I still have 120 cases of Japanese beer in my garage because the new owner did not take over so I am storing them. When I open an office, I am going to invite everybody who likes Japanese beer to please be my guest. My office is going to be at 630 Bathurst Street. I am moving in on September 15. I am just going to invite everybody to finish the 120 cases of Japanese beer.

10:30 a.m.

Mr. Mackenzie: No Chinese beer?

Ms. Bajor: No. I know you are picky, but you have to settle for Japanese.

Mr. Chairman: This is free beer, is it?

Ms. Bajor: Free beer.

Mr. Chairman: And what day is it?

Ms. Bajor: We have to drink it. We have to drink it during September--I mean, after September 15.

Mr. Chairman: And the address?

Ms. Bajor: Please, everybody be my guest. We are going to have cheese with it. I do not know what cheese goes with it, but anyway it is going to be Canadian cheese.

Mr. Chairman: Great.

Ms. Bajor: I do not want to go further into detail on this, but it sounds as if it belongs in the comic books that the powerful Mr. Richard Davidson of Brewers' Warehousing goes to the New Democratic Party trying to get its help.

They say jobs, jobs, jobs. Yes, it is very important, but I would rather put work, work, work, because that is not enough in title, at least where I am coming from and lots of immigrants are coming from, the job related strictly with work. We cannot always blame the government, the NDP, the Conservatives, the bureaucrats. We ourselves, no matter how small we are, have to work hard. Everybody is claiming more benefits. We have to look into ourselves and do a little bit.

For example, last Friday I was talking to the secretary at Mr. Chrétien's office in Ottawa. I was asking him about the study on interprovincial economic co-operation he did in 1979-80 at almost the same time as Mr. Larry Grossman did a similar study on the same topic. It is a very good work. Maybe it was just a little bit ahead. Maybe today we are more up to it and maybe the people all over Ontario are more aware how important it is to open up among the provinces.

Mr. Chairman: That is a provincial document back about 1979?

Ms. Bajor: I think Mr. Grossman did it on his own. You have one article--

Mr. Chairman: But the government did not do anything about it.

Ms. Bajor: --in red numbers, 121. If you take a look at that, it deals strictly with this one and with Mr. Chrétien, who

did the same thing. It is a big, heavy 121. The reason I put 121 in is because of the BNA Act.

Anyway, his secretary promised me Friday he was going to send me a copy of that book. Today is Thursday. He put it in the mail last Friday from Ottawa. I still have not got it.

Mr. Chairman: He sent it by mail.

Ms. Bajor: Yes, that is what I am saying. From last Friday. Today is Thursday and it was not a long weekend, so we cannot put blame on a long weekend.

Brewers' Warehousing is obviously using the issue of job losses to gain the support of the NDP in preserving its monopoly on the distribution of beer. In fact, the NDP claims the supposed increased availability of beer is one of its main objections to the sale of beer in corner stores. However, they did support the sale of beer at ball parks in Ontario, an issue that in itself is well worth looking into. That was the first part of my presentation.

The reason I picked the ball park--and I personally have nothing against brewers or anybody else--is that if certain government agencies are giving licences to sell, they should not be hypocritical. They claim that if the Liberal government in Ontario lets people sell beer and Canadian wine in grocery stores, then it will be a disaster for drinking and driving.

Let me ask you a question. I have a statistic here in the form provided by a very professional group, the Alcoholism and Drug Addiction Research Foundation.

Mr. Chairman: Just before you go on with that, have you finished what you were going to say about jobs?

Ms. Bajor: No, I am not, but because it came to that, that they are proposing to sell, I am just asking where the New Democratic Party was. Where was the police chief? I read an article and heard his remarks two weeks ago that he is opposed to selling wine. Actually, which police chief are we talking about? Is it the one who sat at the Liquor Control Board of Ontario or the one who is still in place? One had to issue the licence to the ball park, and the other one was there and did not say anything, going back to 1982.

Just take a look and talk about the ball park. Who is attending? I do not want to bore you going through it. You can read it. Everything is in there. There are just a few things I would like to mention. It says in the book, 85 per cent of the people attending the ball park drive, so as soon as the game is over, they walk out and get in their cars. Why is it nobody from those sources, which are so conscientious now, asks what kind of disaster there is going to be? It is going to be said they did not open their mouths. Where were they then? That is one thing.

The statistics here show three or four per cent who gained admittance were under 19. It is the easiest way for a young person



to obtain drink. He goes with his friends who are over 19 and they buy the drinks. Who is going to watch whether it is given to a person under 19 years of age, who is not allowed to drink beer?

Why are they selling beers when they never try to sell what we call a light spritzer in Europe, half wine and half soda water? It is ideal when it is hot and someone just wants a little. Did it never occur to anybody? I will bet you any money if someone came up and said, "I would like to sell it," the big brewers would be the first ones to try to prevent that.

It bothers me they look every time from their narrow-minded point of view. I have nothing against big money. I hope 10 years from today I will be a millionaire too, but I would like to do it in a fair way, and they are not.

It goes back one more time to the lockout last March. The brewers retail outlets and the three big ones--now they call themselves the five big ones; I think five sounds better than three, but it is the same whatsoever--decided, because that is the slowest season as far as they are concerned, they would lock out the workers. The workers did not go on strike. No. The brewers decided. Why? Because they did not want an upper hand from the NDP or the union, so that when it was June or July, or time for the Canadian National Exhibition, they would be sort of blackmailed or whatever, and the workers might go on strike. The brewers wanted to do it in a very smart way, "Lock them out, so we are forcing them," and that is what they did, which is fine if you are against a free society, but what did we licence holders have to do with it?

10:40 a.m.

We were the third, innocent party, who had absolutely nothing to do with the dispute, losing jobs or whatever. We were suffering dearly and paying. If anybody in this province thinks that was a fair thing to do to 11,000 licence holders in Ontario, I rest my case. If anybody says it was fair and goes with the territory, I would say, no, it does not. Both sides should have gone to the government. I went to Mr. Miller, and camped outside his office for nine hours, until finally I was told I could see him for 20 minutes. All I got from him was, "We are going to look into it." I said: "I did not ask you to get involved. I did not ask you to tell the union to sit down."

All I was asking was that they do what the British Columbia government did in 1980. When they saw the effect on people who had absolutely nothing to do with the strike--there was a strike in BC then--they brought in legislation very quickly that allowed the licence holders to get out and get their bread and butter. We had to pay taxes during the time we could not sell beer. I have to pay property taxes.

We have not had any help; none whatsoever. I am sure if tomorrow the same thing should happen, if there was a strike a month from today or six months from today, we are going to end up the same way because there is still no deregulation, there is still no ease-up as far as the licence holders are concerned.

I have one more question. Amstel and all the small brewers are licensed by the Ontario government, we, the small licence holders, are licensed by the same Ontario government, and we are still not allowed to do business together. If anybody can explain the logic of it, I would be very glad to listen. I still do not understand. How is it that two companies are licensed by the same provincial government for the same purpose, one to make beer and the other to sell, and we are still not allowed to go there and buy it?

If there are any questions, I will be glad to answer. No? Okay, I will go on with the second presentation.

On July 7, 1982, the provincial government announced it would allow beer to be served on an experimental basis--I am going to skip this first part because we have already talked about the ball games and I do not want to repeat myself and take up your precious time.

In May of this year, the Ontario Liberal Party won the provincial election and ended more than 40 years of Tory rule in Ontario. One of the main election promises was to pass legislation allowing the sale of beer and wine in corner stores. They appear to be intent on keeping this promise and legislation to this effect is expected to be introduced this fall.

Needless to say, Brewers' Warehousing is opposed to such a move. As would be expected, they argue that the current system is best for the province and is consistent with the wishes of Ontario society. I do not want to make any more remarks on that; I already made my point earlier today.

They talk about social responsibilities and of their record of service in Ontario. As part of a public awareness campaign aimed at fending off mounting criticism of the cartel, Brewers' Warehousing has placed pamphlets in its Brewers' Retail Stores. Among other things, they claim their system provides the best assurance that beer will not be sold to minors. Is this really a major concern of theirs, or are they actually more interested in maintaining their current monopoly on beer sales and distribution?

I would like to make a footnote here about those pamphlets. I wish I could have one tenth of one per cent of the money Brewers' Warehousing spent on those pamphlets so I could cover some of the costs that I am paying all by myself.

Mr. McLean: Page 1 of your brief refers to corner stores. What is your definition of a corner store? In my community, we have a large IGA store which is privately owned, a family-run operation. Would you define that as being a corner store where beer and wine should be sold?

Ms. Bajor: Yes, it should be sold. Why not? If I go out shopping, and I am talking now as a shopper, it is much easier. From their point of view, they can handle soft drinks, which are just as delicate. The brewers claim that it has to be kept cold or it will go bad or whatever. If they have survived so far with

their system, it is almost the same system to deliver it and to keep it cold or in cool places.

I know they have some difficulties. I heard the IGA is against--I do not want to name names. If certain groups do not want to go here and there, that is their problem, but generally speaking, if I am going to open a shoe store and if I hear that in South America a small country is making shoes that are going to sell like hotcakes, and I go there, why can I not bring them in? It could be Japan, Thailand or wherever.

There are certain rules when you bring them in, but that is okay. If I pick the wrong number and I get stuck with them, that is tough luck, Charlie. I think for anyone who wants to do business, just like any other thing, there must be a certain licensing or whatever.

Mr. McLean: Convenience stores: Is that what you determine to be a corner store, such as ones open from 10 o'clock in the morning to 10 o'clock at night?

Ms. Bajor: I do not know how you would define "corner store." It depends on the point of view. We are used to big stores. When I first came from Hungary and I went to a small store--now I know it was a small one--I thought it was the biggest one here, because so far in my life it was the biggest one I had seen.

It is relative. You are in the middle. What is left and what is right? You step over a little and what was in the middle becomes your right. It is the same thing. I do not want to say that I know all the answers and I am not trying to be an expert. I have to put emphasis. One thing I know for sure. This system is definitely wrong and unfair.

I do not want to tell the politicians what to do, but some change has to be made. To what extent, I do not know. One thing I know for sure is that if Canadian wine is going to be sold in grocery stores or other supermarkets, the wineries are going to be helped because a very small community is going to have to hire more people and for a change they are going to be in the blue and not in the red.

Mr. Chairman: You are not concerned if Loblaw's as well as Short Stop has beer and wine?

Ms. Bajor: No, I am not concerned.

Mr. Chairman: It is the principle you want to get across.

Ms. Bajor: It is the principle that it is so strict. I know it cannot be done overnight. We are very happy and glad that at least we got as far as--we know it is going to be delayed. I do not want to make the same mistake as the great Industrial Revolution in England where they put all the machines in overnight. It has to be changed progressively.



For 80, 70 or 50 years, we have been used to it in Ontario. You cannot change it overnight; I am not saying that. I am not an expert, I am not a politician and I am not a professor, but I know what you do even in your own household if you want to change how you treat your children. You cannot yesterday let them do everything and then tomorrow tell them they have to wash the floor and take the garbage out. You have to do it progressively. This week you tell them, "Every Tuesday you take the garbage out," because until then they did not do anything. You cannot dump every chore on them.

10:50 a.m.

I always go back to my family because I think how you treat and manage your family is almost the same thing as a government or a bigger business or a province, except for more people. I am not saying the government should change everything overnight. I think that would be a disaster, but something should be done when there is a crisis such as the one last March. Someone should take a look at the small businessman's interests. No one spoke up for us.

Mr. McFadden: Having had a chance to review the material, I want to ask you a question about free trade. I notice you brought an Addiction Research Foundation study on beer in the ball park, which is quite interesting. There is also other material, photocopies from the Toronto Star on trade blocs and free trade.

I want to ask you a question on your attitude to free trade. I assume you have some concerns about it. Are you advocating that American, European and other beers be made available without any protection for Canadian breweries? Are you advocating free trade on all liquors and wines? I am not quite sure what you are advocating in the area of free trade, which is the topic of this committee.

Ms. Bajor: I had an idea when I was trying to buy beer last March. When I called Polish or Hungarian beer representatives, wherever I tried to get more beer, they said: "We cannot do it. You have to go to the LCBO and order special stock. You need a \$10 down payment because they want to make sure that if they bring it in you will not leave it on their necks. If you do, you will lose your down payment."

I am not talking about the United States. The government decided beer could be brought in from the US. To take the case of imports from Hungary, because I talked to their representatives quite a few times, they can have beer in stock. They can only bring it into this country if I as a holiday tavern owner go to the LCBO to order special stock and say I want Hungarian beer. They will tell me how much it will cost, I have to fill out God knows how many papers, and I may get it in two months, because they have to order that special stock from Hungary.

Even if I decide tomorrow I will have Hungarian guests in my house, or German or Polish or whoever, and I want to buy their beer and they do not have it now at the LCBO, I cannot go to them and say:

"These people have it through the LCBO. Can I buy it?" No, they cannot because they can only import beer from any other country if they have a special order. It is ridiculous that I have to order two or three months ahead.

Mr. McFadden: Are you suggesting that Brewers' Warehousing or the LCBO should maintain a full stock of beer from other countries?

Ms. Bajor: No. I am saying the LCBO or the agency that gives the licence to people to bring it in should let them take the risk. If they think Hungarian, Polish or German beer will sell, let them bring it in. It may sit in their warehouse and they may get stuck with it. You have to take a risk in business. I took a risk when I bought my business. Every time a businessman goes out and orders or buys something, he takes a risk.

Why not let them take a risk and keep something and not have every single thing go through the LCBO? It makes it much more expensive, more difficult and slower. It does not make it more efficient.

Mr. McFadden: Your argument is with the distribution system. What about the whole area of duties and so on? I know you have consistently attended here at the committee. What we are trying to wrestle with here is the impact of moving towards liberalized trade with the United States, Europe and other countries. Included in that, of course, is the whole question of not just the distribution systems, but duties, quotas and everything else, all the various nontariff barriers, not only with regard to foreign companies wanting to sell to Canada but where we can sell abroad.

Am I right in assuming that you are suggesting we essentially should have an open market, where anybody can buy virtually any beer or wine or spirit without any particular control; that we essentially should be a free market in Ontario for purposes of the sales of liquors from around the world? Would that be an accurate statement of what you are advocating to this committee right now?

Ms. Bajor: Not completely free. There must be some kind of licence. I do not want to go into small, technical details because I do not know. They have a system in the United States and when you take a look at that--I took a clipping from the Star about an American lawyer who was representing Molson or Labatt, I do not know which, in New York about distributing. He said, "We are selling to the wholesalers f.o.b. Toronto or Montreal." That means they are therefore picking up the transportation price. "How much they are selling it for and what they do with it is their problem."

That is exactly what I am saying. If companies such as Molson, Labatt and Carling have agencies in the United States, a representative just goes and talks to someone and sees how he is doing. The salesmen are going from bar to bar leaving their free samples.

It is very interesting to see what hypocrites they are. That article said the head salesman of Molson or Labatt was talking to a newspaper guy and he said: "Take a look at that supermarket. Do you see all those beers? That is what we are going to do. The next thing we would like to see is Molson or Labatt or whatever in the supermarket."

Do they have two sets of morals? Is it wrong to sell in the supermarkets or grocery stores here but okay in the United States? They have two sets of morals. They are worried that the underage Canadian youngsters are going to get drunk, but are they not worried about them in the United States? I do not understand their philosophy. I do not understand their morals. Either as a principle they are against too much free access to that beer and they are against it in the United States or in other countries, or it is hypocritical and morally wrong as far as I am concerned. It is okay to sell to the youngsters and to the corner stores in the United States, but it is not okay here in Ontario.

Ontario is the only province. If you travel all over the country to Alberta, Manitoba, Saskatchewan, British Columbia and go into a small town or village, the drug store usually carries beer. They do not have liquor control boards. It is no problem there. I do not know why we would be the only province here in Ontario to get in trouble.

Canada is the only country. You can go all over the world--Europe, South America, Asia, India--and wherever you go this is the only province with such strict restrictions and regulations. It is outdated.

Miss Stephenson: China is much more rigid, I would like you to know, about the sale of alcohol.

Ms. Bajor: But that is not a democracy; that is a communist dictatorship. You cannot have it both ways. Either you are a democrat and you do everything the democratic way or you are a dictatorship.

Miss Stephenson: You just said there was not any other country that was quite as outmoded as Ontario.

11 a.m.

Ms. Bajor: I was talking about the free world, a free society that believes in free enterprise, trading and speech, a free voting system, free everything.

Mr. Chairman: In March, when you were attempting to import beer from Quebec and you were rebuffed, were you ever given a rationale? I notice in this document 120 you have given us, in the same month then Premier Miller and Premier Lévesque were concerned they could not trade buses and paint with one another, but did anyone give you a rationale why you could not receive beer?

Ms. Bajor: They gave me a hard time; that is what they gave me.



Mr. Chairman: Just a hard time.

Ms. Bajor: What happened first, when I wanted to see Mr. Miller on March 4, he was out of town. An assistant--I think her name was Lynn McDonald--made an appointment for the same afternoon for a meeting with Mr. Walker. We talked for about an hour and a half at his office. Then I also told him it was not just bottled beer we were looking for, but draught, because that is our bread and butter. At the corner of Queen and Bathurst, we sell more draught beer than bottles. Anyway, he gave me the name of Mr. Brian Grace at the LCBO and said he was the one who would be responsible for doing whatever he could.

I do not want to go into every detail. From Monday until Friday at 2 p.m., there were phone calls to the effect we were going to have supplies. At 4:15 p.m. a gentleman from the LCBO, of whom I had never heard and to whom I had never talked, called me at the Holiday Tavern and said to me, "My name is"--I forget it; I have it somewhere--"so and so from the LCBO, and I know you were trying to import beer from the United States."

I said: "Wait a second. I did not want to import because I know I cannot. I was just trying to bring the parties together, so you could do it through the LCBO." He said: "That is absolutely wrong. We do not care what the Minister of Trade"--he did not say that exactly-- He said, "The people up there at Yonge Street said it is illegal, it is against the regulations, and you cannot do it." He waited until Friday afternoon at 4:15, when he knew I could not go anywhere to complain and open my big mouth again.

I knew it all week. I knew they were just stalling. They were just leading me by my nose. They were telling me, if I do this now, if I do that, even if I do-- They even told me Friday morning, "You can call all those people who attended, out-of-town tavern owners, and tell them they have to do the ordering in writing." On Friday afternoon they just decided, "No, it is illegal and you cannot do it."

Mr. Mackenzie: I would like to get back to the question Mr. McFadden was asking just a few moments ago because, with all due respect, this would be a lovely topic if we were dealing with beer in the corner stores or the fight you had with the brewers and LCBO. However, what we have heard this morning has had absolutely nothing to do with the purpose of this committee, which is to decide whether or not we want to enter into a freer trade arrangement with the United States.

I would be interested in getting a clear answer from the witness, because she has sat through most of the hearings, as to whether there should be a removal of all or most of the restrictions in terms of trade back and forth. Obviously, you are dealing with the brewery industry, and it would go beyond that if we open up the trade situation; but that is what I would like to hear about, not the battle you have had for the last year over the situation that existed during the lockout at Brewers' Retail.

Ms. Bajor: Can I ask your name, please?

Mr. Mackenzie: My name is Bob Mackenzie.

Incidentally, Ms. Bajor, I was one of those who met with the brewers. I want you to know that while I am supposed to meet only with unions, apparently I meet almost as often with companies and company officials.

Ms. Bajor: Meetings and doing something are two different stories. You can meet and talk all the way, but if there is no result or good comes out of it--

Mr. Mackenzie: Mr. Chairman, I would ask that we stay with the free trade issue, which is why this committee is here.

Ms. Bajor: I will just answer your last remark. When you say you are not dealing with that issue here, that is exactly what you are doing. If you read the definition of what the select committee on economic affairs is about, that is exactly what it is all about. If you want the definition, I will give it to you. It is not just between the United States and Canada. I am sorry I cannot bring up a specific world trucking company. I am not an expert.

Mr. Mackenzie: You were asked a specific question by Mr. McFadden. Do you think there should be removal of the restrictions on the flow back and forth in the brewery industry between this country and the United States? That is a legitimate question, and I would be interested in knowing your answer.

Ms. Bajor: You mean from our part? They are all importing whatever they can sell in the United States. They have no restrictions at all.

Mr. Mackenzie: So you are saying we should allow unlimited access here too.

Ms. Bajor: I did not say that. I said the present system--I am not an expert; so do not try to pin me down with one specific question. I am a simple businesswoman who gets frightened and frustrated. I have to go back again, and that is how I get involved. As I told you, I had never done anything like that before, but the further I went, the more I became frustrated, angry and sometimes sad.

Mr. Mackenzie: I do not want to get us sidetracked either, and I want to make it clear that I do not happen to agree that you are either simple or plain. You have shown a heck of a lot of acumen over the past few months in the fights you have undertaken. I have no argument with that at all. However, we are here to discuss the issue of trade liberalization, and I would like to keep it a little closer to that than what we have been discussing.

Ms. Bajor: Okay. I do not know if we should let all beer in from the United States. I am not an expert; so I do not know. However, I do know one thing: the Canadian manufacturers of beer can sell as much beer as they want in the United States; there are no restrictions on it. How many American beer companies we should

let into Canada, I do not know. To tell you the truth, I do not know if it would be an advantage or a disadvantage in the short term and in the long term. As Professor Lipsey said yesterday, it is very hard to tell.

Mr. Mackenzie: But he clearly thought we should open it up more.

Ms. Bajor: A little more. I think so. You cannot have it both ways. It is like a marriage. When you get married to someone, you cannot always take; you have to give something. It works with every human relationship and it is the same in business. If I just want to take the money from my customers and every day I am going to sell a little less beer for the same price, they will be very mad at me. You have to give something, in service anyway. It is a two-way street, not a one-way street.

Mr. Chairman: Thank you very much, Ms. Bajor. It is my recollection that in the initial discussion about the terms of reference we agreed we could look at interprovincial tariffs. In my view, the presentation we have heard this morning is quite on topic.

Ms. E. J. Smith: In that regard, I was interested when reference was made to the settlement of the BC strike and you held up your documents. I was curious whether that was resolved by interprovincial trade or trade with the United States.

Ms. Bajor: I do not know how it was resolved finally. I have the newspaper articles here, and I brought them because as soon as the government saw that the small tavern owners and licence holders were in trouble, it stepped in very quickly and deregulated. That is how I got the idea in March when I went to ask Mr. Miller and Mr. Walker to do the same thing here in Ontario.

Ms. E. J. Smith: I have not had time to read all your documentation, but I wonder if you know much about other provinces and the free trade between them in the brewery industry.

11:10 a.m.

Ms. Bajor: No, I do not. I know one thing: Ontario by far, and not just in this restriction, has the strictest system. Before we bought the Holiday Tavern, I was in the export-import business with my husband. We travelled a great deal; I know Canada coast to coast, from the Pacific to the Atlantic. In every small town or village you went into, you could find a liquor store or whatever in a corner of a drug store, because it is a small thing. They can easily order, even through us, if they want some special stock. This is by far the strictest one. The system in the United States works so far. I do not think it is too much trouble.

Mr. McFadden: In answer to that question, apparently what they did in British Columbia was to open the borders to American beer, not to other provinces' beer. They opened up the borders to American beer, the canned beers that went in and developed a market niche in British Columbia. The same thing happened in Alberta, and a similar thing happened here. In each of



the three provinces a similar strategy was followed to supply the beer drinkers: the opening of the border to American beers. After the strikes ended, there were various results with respect to the market share they have managed to maintain in the long run. But that was what happened; they opened the borders.

Miss Stephenson: Was there a total deregulation after the strike?

Mr. McFadden: No.

Miss Stephenson: The regulations went back on after the strike, and the BC liquor control board, or whatever mechanism, was again in charge of whatever the distribution was.

Ms. E. J. Smith: Is there some explanation for opening to the United States and not to the other provinces in that situation?

Miss Stephenson: I do not think there is any explanation except that it is easier to get it across that way; it is shorter.

Ms. E. J. Smith: I realize that. That is the only explanation.

Ms. Bajor: For someone who lives near the border between Quebec and Ontario, it is much shorter than to go down to the United States. It depends on where you are located.

Mr. Chairman: Ms. Bajor, I want to express the appreciation of the committee for your presentation this morning. I am quite sincere when I say it was very well presented and very well done. You have given us some insight into some of the bureaucratic problems that exist, which in many cases involve what we are calling nontariff barriers between Ontario and many other parts of the world.

I do not know whether the committee feels it is in order to entertain a resolution to get rid of this cartel and put beer and wine in the corner stores at this stage.

Miss Stephenson: I think not. It would be wise if we were to explore other aspects of this, but I do believe the item Ms. Bajor raises, perhaps tangentially, is one we will have to look at very carefully, and that is the problem Ms. Smith raised, the problem of nontariff barriers between provinces. We have erected some in Ontario, particularly in the area of liquor and beer, I think. There are fewer in other areas, but we have had some.

We have experienced the problem of nontariff barriers in the mobility of trade from coast to coast in Canada; it is trade primarily in services but in some other things as well. Unless we solve the problem in our own house, I am not sure we are going to be capable of solving the problem of our external relations as a country; so this is a very good reminder to us that we must do this.

Ms. Bajor: Do you not think that in the last lockout, for instance, someone should have taken a look at the position that was facing small tavern owners? Do you not think we deserved better treatment?

Miss Stephenson: No, I did not say that at all. What I am saying is that I believe this committee has a responsibility to ensure that we look very carefully at the ways we can solve the nontariff barriers to trade within Canada as well as those we must face, some of which you had to deal with and some of which you have brought out this morning in your presentation.

The specific concern you had in relation to the deregulation of one industry--two, probably--in Ontario is a matter that has an effect on our general thinking, but I am not sure this committee is the one that should be making recommendations about this. This is a matter that is going to have to be dealt with by the Legislature as a whole.

Ms. Bajor: As far as the definition of a special or select committee is concerned, it is clearly in it if you are sitting here with 11 members and dealing with it.

Besides the technical term, could you explain with one simple statement or sentence how, going back to March, nobody would dare to stand up and say, "Look at those people"? There were 4,500 union workers locked out and 172,000 were suffering. Whether they were union or nonunion, I do not care; they were all workers, but suffering--

Miss Stephenson: Mrs. Bajor, this happens with every labour dispute.

Ms. Bajor: No, it does not.

Miss Stephenson: To a greater or lesser degree.

Ms. Bajor: I am talking about a third party.

Miss Stephenson: When there is a labour dispute between school boards and teachers, the students are certainly the third party.

Ms. Bajor: They go bankrupt. They lose their bread and butter.

Miss Stephenson: Some of them might.

Mr. Chairman: We are getting a little off topic. What Dr. Stephenson is saying, and she is expressing the view of the committee, is that we have listened, we have been impressed and it is having an impact on our thinking. You are right that it does come within our terms of reference and will have an impact on our general thinking.

You are giving us a specific, live example of the problem we are dealing with. We hope our report will express concern, perhaps in a more general way than you are looking at it right now, about

problems of this nature. It may well be we will cite your situation as an example.

Ms. Bajor: Thank you very much for your patience.

Mr. Chairman: Thank you for very much for bringing all this to our attention.

This morning we also have Mr. C. W. J. Atkinson, who I believe is a consultant. Is that correct?

Interjection.

Mr. Chairman: We will take a recess until about 11:20 a.m., if that is in order.

The committee recessed at 11:18 p.m.

11:22 a.m.

Mr. Chairman: Perhaps we could get started again. Mr. Atkinson has quite a bit to say to us. He has indicated to me that he is going to begin to speak, and if we wish to interrupt politely, we may do so.

C. W. J. ATKINSON

Mr. Atkinson: I have a slight hearing problem. I tend at times to speak a little low; at other times, if people speak very crisply and clearly, as every civilized person should, I will hear them and there will be no problem.

I should mention a bit about my background. I am one of these northern Ontario sceptics who was raised in the mining area. I grew up with mining promoters. Half the people you would look at you would wonder whether you believed them, and the other half you would know you did not believe them when they were promoting their schemes.

I am a graduate of the University of Toronto in engineering, physics and commerce. I spent a lot of time with Canadian Westinghouse, which is an American multinational, as well as a bit of time--a year--with Powertronic, which is a small Canadian electrical manufacturer. I also spent a lot of time with Noranda, where my basic forte, after a number of things, was to sell all their refinery products, including precious metals.

Because I was selling most of Canada's gold, I gained contact with the Federal Reserve Board, the Bank for International Settlements, Swiss and Canadian banks, finance ministers and central bankers from any country you want to name. That is a useful point to keep in mind. My outlook is a very international one. In dealing with gold, I have learned that you have to consider not only what Canada looks at but also what other countries are looking for and try to see where you can marry those interests.

In listening to the presentations and reading the reports of



what has been said to the Ottawa group and the comments that have come through the papers, I am reminded of the dispute among those who seek to find the source of the Indo-European language. One group thinks the source is in the Germanic area, while another feels it is north of the Caucasians. They all use the same data, and they all come out with different conclusions. There is a new group that is bringing in new sciences and new sources of knowledge, and it is coming up with a different conclusion which tends to refute all the others.

If you can translate that into this situation, it would mean that if you follow the traditional group, you will end up with one answer; if you follow any of the traditional groups, you will end up with a variety of answers.

If I may give my conclusion first, it would perhaps be helpful. I see no reason whatsoever why Canada could not negotiate a framework for discussing trade matters with the United States, but it should also include extending that to other Organization for Economic Co-operation and Development countries and other General Agreement on Tariffs and Trade countries.

On the other hand, when you get to individual commodities and products, which you eventually have to talk about, you have to look at the state of manufacture of them, at the structure of the industry in Canada. You have to look at the structure in other countries and see our relative strength and decide whether you want to restructure the industry to make it viable under current things. In many of what I call the Canadian durable high-tech industries, restructuring is badly needed.

I have to look at the United States. In the Eisenhower era, Eisenhower introduced a number of measures relative to gold. Those were instituted because the United States' manufacturing costs were much higher than the rest of the world's, with severe import competition from Europe. He put in things that in essence put in a partial devaluation and got those costs again in line.

Nixon did exactly the same thing. The problem is that American costs get out of line. On two occasions, that was with Europe. The American idea was that if they put in a delaying action, the Europeans would adopt the American mode of living with that standard of living, and their costs would be forced up to the American level and everything would be all right.

Unfortunately, Japan entered the market with a different standard of living that entailed a different need for a wage structure. That has been followed by Brazil, South Korea and other newly industrialized countries with a yet lower cost level.

One must not be confused by countries such as Malaysia. The manufacturing things that have been put there are purely assembly operations. They do not indicate that an industrial economy is really being set up. If those plants were closed down, which they might well be, those countries would revert to being basically commodity exporters. There are only a few that are newly industrialized.

With regard to the American tradition, you have to look at what Reagan has done. I think Reagan brought in a monetary policy that was intended to put in a recession so they could have a key to try to stop or arrest the growth of wages in the United States. It went further than they thought it would, so they introduced a program of feeding money back in.

The M1 keeps rising at astronomical rates. They are feeding money into the system. That would cause inflation if they did not also allow imports to run in freely. The import price levels keep the overall price level down and hold inflation down. That led to the problem they now have where the import level is causing a balance-of-payments problem of such magnitude they have to look at the total volume of imports that are coming in.

By June 1986, the United States will be the largest net debtor in the world. It will exceed Brazil. It is now a net debtor. After three years at current rates of imports, their total debt will exceed the total debt of Latin American nations. They know that, so they have to cut down on imports or improve the balance.

There are a number of identifiable situations in which the Americans react. If US consumption is steady or growing, but imports are taking a sharply higher share of the market, then they object. The prime example of that is lumber. Lumber is now taking perhaps 30 per cent of the American market and the American people are insisting that be cut down.

11:30 a.m.

You have to remember that of the American senators who are up for re-election next year, the four key ones in the four key areas are Republicans. They are insisting that Republicans move away from free trade. You have to keep in mind the American political situation. They regard the British Columbia position, and I am afraid I regard the position, as being one in which it has sharply expanded its exports by taking advantage of a foreign exchange situation. That means they can sell at a lower price and they are doing so. Americans always buy if they have a lower price, but that may cause severe layoffs in the United States, and the United States will simply insist that those exports be cut back before anything is done.

I should mention that I did a master lumber study for Noranda a number of years ago, a 20-year forecast. I spent nine months speaking to damned near every lumber dealer in the United States east of Nebraska and north of Joplin, Missouri. They tell me there is no brand loyalty to Canada whatsoever. They have brand loyalty to Georgia Pacific, which delivers them lovely stuff, and a warehouse who delivers them lovely stuff, beautifully graded, packed and everything. If the price of Canadian goes one per cent below the American price, they buy Canadian, but that exists only as long as the price differential holds.

You can see the problem Mr. Bennett has, in that he is enjoying an advantage given by the foreign exchange differential. When we look at our dollar and say, "It is wonderful; it is

showing a sign of strength," that should be causing him grave worries. But I think the United States will insist on a cutback.

Mr. Mackenzie: May I interrupt for a minute? I take it you are agreeing with a more disturbing position, which was put to us by a chap from the union and also by one of the other groups that appeared before us, that this time around we are likely to see some action by the US with respect to the lumber industry in British Columbia.

Mr. Atkinson: Yes, I believe that is absolutely true. One thing I should note is that Canadians do not normally cut their lumber to sizes that are specifically designed for export markets. Japan and Europe are metric, and Canadians are loath to make metric-sized plywoods, for example, or metric-sized studs. They simply say other people are going to have to change their standards to our standards, and so they have very little success.

Westmin, which runs a number of lumber mills out in BC, has switched to metric measurements and is having great success. But we could make up a large proportion of our losses in the United States by cutting to the requirements of the far eastern markets and the European markets. The European markets now largely buy from Russia. I have seen photographs of Russian shipments. They ship in a five-by-five cube. If they are shipping 2 by 10s, it is a five-by-five cube on the face. Their minimum length is 16 feet and it runs up to 20 feet. Our thing is normally about a foot and a half by four feet. It means that it takes four times as long to unload the boat, and we do not have guaranteed sizes.

You have to look at the industry very critically on that. Looking at the grade woods you can see--and I have worked in sawmills, so I know about grades--the Russians ship absolutely beautiful material.

So Canadian people have to improve their performance. I have to concur with the others: I think the United States will insist on cutbacks. That will be a precondition to everything. I keep in mind those poor American senators.

The other problem you have is that where United States consumption is falling, a steady level of imports commands a higher percentage of the market. That applies in the case of steel. If you look at the 1980 level of imports, it was about \$10.6 billion to the United States. It has now gone up to \$10.8 billion. That is hardly a change at all, but it has meant a change in market participation from, say, 15 per cent to 25 per cent. On the basis of that change in the percentage the Americans again insist that it be lowered. They are insisting that it go down to 16.5 per cent, which was the 1980 level. Steel, as I say, is the example.

In other areas, where the United States already has marketing schemes and where it is controlling its own outputs, and where we or other countries by one means or another increase our exports of that commodity or of products that use that commodity, then you run into trade restrictions.



A good example is sugar. The United States produces sugar on a beet basis, sugar beets. A lot of it is in the southwest, again where there are a lot of Republican senators. Two or three years ago they cut back on their imports of sugar from all countries on a global basis by 50 per cent to preserve those markets. I should have added Hawaii in there. They wanted to cut down on the amount of sugar they were having to buy for their stockpiles to maintain that at their guaranteed price. When Canadians started shipping more sugar and sugar products, that jeopardized their scheme, or they considered it jeopardized their support scheme, so they put on their restrictions.

Mr. Mackenzie: May I ask a question on that? We have recently been hit very hard in that area of sugar products because of the rather stringent restrictions just imposed. Did our increase in the export of these products start or show a decided jump three or four years ago when these restrictions were placed on other countries' sugar coming into the United States? Did we then start penetrating their market to the point where we now are facing this?

Mr. Atkinson: This brings up a rebuttal of a point that was raised yesterday. While our penetration in the global sense might be low, in regional markets it would be high. The protest comes from the people serving the regional market. If you say in regard to any product that we are going to be shipping only one per cent of the entire US market and so our spread over it is not important, you have to look at where the shipments are going. If they make up 10 per cent of the regional markets, you will get complaints.

Mr. Mackenzie: That is why the northeastern states had such a reaction and why that is affecting us.

Mr. Atkinson: They are demanding a reduction in imports as a sine qua non for any free trade negotiations whatsoever. They are targeting lumber because the senators will key things on that.

They have embarked on another program. It was announced yesterday that in Taiwan they have come to an agreement whereby Taiwan will import \$369 million of additional stuff on an annual basis of imports and that will bring their trade in balance. They are insisting that other countries bring their trade in balance. If they have enough clout in a country, they can get away with it.

They are also going in to sign free trade agreements that are parallel with other countries. They have done it with Israel, which they could do very easily because they finance the country, and they have done it with Mexico. Canada was supposed to be the one that was an industrial nation which agreed to it. You ought to ask yourself whether the attention being paid to us, or their apparent receptiveness to us, is based on an interest in us per se and in good neighbour relations, or whether they want to hit us first so they will have a negotiating point before they go to Europe on a country-by-country basis.

Miss Stephenson: That has already been suggested.

Mr. Morin-Strom: Could it also be that we are the largest partner and it is very critical that they have a more favourable trade position with Canada than they have today?

Mr. Atkinson: I think they move to where they have the most clout. Let me go back to my people at the Fed and the European bankers. I am going to sound very miserable, but they regard economists as useful tools. You can always find an economic school you can use to push what is really a statecraft argument. Their basic purpose is to have as full employment as possible in the United States. They have defence measures they look at and strategic measures they look at. They also look at their various balances of payments because they do not like foreign debt. Everything else is secondary to those.

As a good illustration, it is thought that the American reaction to South Africa is not based on any expectation of changing that government at all. It is based on the fact that Cape Horn is a strategic necessity in their long-term thinking. If they lose the availability of the Simonstown naval base and it goes to a left-wing, as they suspect, black government, then Russia will get control of the Cape, and they will do everything to stop that.

11:40 p.m.

It is thought that England's approach on the Falkland Islands was to give an ultimatum. You may not know that England in the 1930s did an analysis, which leaked out, which concluded that Argentina had the superior claim. Once they had found that, they put a 150-year security hold on those documents so that their findings, they hoped, would never become public. They did come out eventually through using what you call textual analysis; what they say in other areas. You have to remember their approach to Canada will be based on those same criteria.

Mr. Mackenzie: So what you are saying, I guess on a grander scale, is that the argument we have had--that what we really need to know is what kind of a strategy or industrial policy we need to achieve what we are trying to do--is as important as any of the figures or anything else. We need to know where we want to go before we make a decision, the way the United States is doing it at the moment.

Mr. Atkinson: Yes. I do not believe we are equipped to make a decision now. If I can echo a comment that I believe you made, we need to know the actual nature of the industries and the strengths of the industries we are discussing. If I may hold off on that for just a minute, I would make the point that Canadians are looking for gains and to hold gains in volume in exactly those areas where the United States is finding its economies are objecting to us.

If you look at British Columbia or Alberta, they are claiming they want free trade, but their thing is to try to hold a gain that has been made. You have to remember, too, that if you deal with an individual corporation, Noranda Mines itself may be quite happy with the wire and cable that Canada Wire and Cable ships to the United States. On the other hand, we may have a

negative trade balance in wire and cable with the United States and it might be better if the six or seven producers merged into three producers who would be strong enough to withstand those imports and perhaps reverse the flow and get into some exports. That is what happened in the white goods industry, with Camco, etc.

Other countries throughout Europe, and Japan, do look at exactly this thing. They do it by moral suasion, or they do it by tax policies; nevertheless, they try to do it.

If you read the Financial Times, you will see industry after industry being studied on that basis. It is now happening again with the white goods industry in Europe. They expect maybe five major firms out of the 20 they have now, but the governments are thoroughly in agreement that those mergers should take place. The outlook of an individual industry or individual firm to this problem of trade may not be in Canada's interest or in Ontario's interest. They may be quite happy with their position.

Ottawa, a few years ago, went through a number of sector analyses. They stopped reporting to the press when they realized they were totally unsatisfactory. Ontario did a number of sector analyses in 1976, of which I have a complete set, and they are all unsatisfactory, and the British National Economic Development Organization also did a set, and they are totally unsatisfactory; unsatisfactory being that the individual components of an industry do not wish to change their individual status. They are not willing to accept that to be competitive maybe fewer and better is the answer. If you have seen them, you will recognize the Ontario ones simply were not satisfactory at all. You could not do anything with them. They all just simply asked for tax breaks.

When we look at total employment, you have to recognize there are a couple of very uncomfortable facts when you look at it on the comparative basis. We have the lowest proportion of any industrialized nation in manufacturing. We have 18 to 20 per cent where Germany, etc., might have 40 to 50 per cent. If you look at what I am going to call high-tech durables--and those include all machinery, all computers, etc.--within that lowest percentage in manufacturing we have the lowest absolute percentage of people engaged in high-tech manufacturing, and that includes automobiles. So our position relative to the rest of the world in the area where we seek our salvation, which is high-tech, is really the weakest of any area in the world.

Within the percentage of a country, an industrial company normally has about one third in power machinery, which by virtue of chance includes computers and automatic data processing; one third in electrical machinery related to hydro and its distribution; and one third in transportation. We have about 60 per cent in transportation with our auto pact; about 25 per cent in electrical, which is low; and about 13 or 14 per cent in the machinery area, which includes computers. So the specific area in which we look at the lowest percentage, which is the electronic area, is the weakest area of Canada. It is weaker than any other country in the world.



You have to recognize from our standpoint--and you have to be a good Ontario person here--that almost all of Canada's industry is concentrated on Ontario. If you spoke of Ontario as a separate country, those percentages would move towards the European level. If you look at the numbers of firms that are active in those areas, you might find 85 per cent are active in Ontario. The other countries can talk about resources, and that is all they have in real terms.

One thing that Canadians do not recognize is that Canada is the United States' largest market for spare parts and original components. With regard to individual products, say, construction machinery, we export about \$450-million worth of spare parts and construction machinery to the United States. Singapore is a regional distribution centre and it exports \$150 million. Other countries are down to \$75 million.

If you look at these things industry by industry, then go through the other half of the exercise and identify the individual firms in those industries, you will find that the firms that are doing the importing are largely American firms. We have very little production in those goods. If you go by industry, you find that the leading producers are foreign producers in most industries; a notable exception is Nortel.

There is another thing I have to mention. Canadian citizens look at individual successes and transfer that success as being representative of the whole industry. The Canadarm is a noteworthy success. It does not mean in the whole space field we are a world leader. CAE does make what we might normally call link trainers. The link branch of Singer in the United States has about 60 per cent of the market; Rediffusion of the United Kingdom has 30 per cent of the market; Canada has five per cent with CAE, and the rest of the world has five per cent.

When we see that it is being sold, it seems to Canadians it is a signal achievement in technology, but we have only five per cent of the world market; so it is not really significant in terms of our total export. That is why I keep saying you have to look at the success of individual industries to see what they actually do.

One of the problems we have is that in considering our industry as it is now--and, again, we are talking more or less about technology--there are two areas of high-tech: high-tech durable and high-tech nondurable. High-tech nondurable includes specialty and fine chemicals, in which we are very weak. We are strong in both chemicals, but we import back the--

Miss Stephenson: We are nonexistent in fine chemicals.

Mr. Atkinson: That is right; I agree with that entirely. If you look at pharmaceuticals, the amount of research done in the United Kingdom and Europe is in the order of billions of dollars. They say they are wonderful here because they do \$150 million. That is not even enough to wet a pen to write an account of the story. The ads by the companies bear no relation to the global reality of what they are doing.

11:50 a.m.

If you look at the way in which Canada is getting its exports to the United States, you will find that in field after field of technology, we have nearly doubled our exports. A good example is auto tires. Those firms may be operating on a three-shift basis, as some of them are.

Mr. Mackenzie: They are reverting back now with regard to tires.

Mr. Atkinson: The counterpart firms in the United States have gone on half-shifts or shut down. What is happening is they make more money manufacturing in Canada because of the exchange rate differential, so they run the Canadian operation flat out and cut back on employment in the United States. The United States is as unhappy as hell about that, and that is one thing that has come up in this. If you have a change in the exchange rate, if our pride wins out and we have a stronger dollar, that situation will reverse.

There is another problem you have to consider and it is very significant. The argument is that if free trade were instituted, that would remove all the trade barriers and Canada would be able to increase its exports substantially. You have to look specifically at what the United States imports, in total, and the percentage Canada gets. In foundry machinery they imported \$143 million in 1983; from Canada they imported \$13 million; so we got nine per cent of the market. Other people face exactly the same barriers we do.

We have to consider these things area by area, look at our participation and try to figure out why other countries can get so much more when we cannot. You have to conclude it is not the trade barriers which are impeding Canada's sales. We are getting such a small proportion of the total intake of the United States, you have to look for other reasons.

Mr. Cordiano: In that case, would you say, if we had a free trade deal, it really would not alter the situation that much, as far as our competitiveness as compared with some other nations goes?

Mr. Atkinson: Yes. When you look at the fine structure of industry you begin to see why. A good example of an American firm in an obscure industry is Parker-Hannifin Corp., which makes seals, O-rings, connectors, cable clamps, that whole range of electronic defence connectors, electrical and non-electrical. They have a small plant in Windsor which makes hose clamps for automobiles. When you lift up the hood and see the hose clamp, they are made there. They are made in about 10 other sites in the United States and 10 in Europe. Because of their bulk, it is convenient to make them locally.

That company has one small unit which services the Halifax area for sealing compounds, which was put up in anticipation of the oil boom in that area. It is doubtful whether that will

continue because that situation is now slowing down. However, the company has full research facilities throughout Europe and the United States and full plants for everything it makes.

It also has a distribution network in Canada. It makes one small item here and distributes the rest of the products made in the United States through the distribution loop. It has a full set of modern plants in everything it makes.

To that company, Canada is, as it were, an adjacent state where it is not really necessary to put a plant. There is no reason. With an exchange differential, there might be, but on the long-term basis such an operation would look at, there is no real reason it should be done because it would anticipate the exchange rate would normalize.

When you start going through various industries, you find that is the pattern. That leads to a number of things. We have a very fragmented set of sources of supply. If there were 10 competitors to Parker-Hannifin, they would all be active in Canada.

It might be possible, as in the white goods area, to reorganize, exert moral suasion and say, "In this free trade arrangement we cannot have this; we have to have some of you manufacturing these things," and then, among themselves, select who is going to do it. That goes on in Europe all the time, in which case one of them or a couple of them would manufacture and the others would withdraw. We would have more employment here. You have to understand that we are going to have to go through that process.

The problem with branch plants was not so much that the branch plant itself was here--that was good because it gave employment--but that it gave them a base from which they set up a distribution network that distributed all the other things they made in the United States.

We are shipping a lot of lift trucks to the United States. They concentrated all their efforts in that range of lift trucks at that particular plant; now it has become an important thing. There are not that many lift truck manufacturers left in the United States.

There is another area with defence production agreements. Litton is a good example. All of a particular product will be made in Canada. It falls under the category of radar, and we have had exports of radar to the United States. However, it is again an American firm. What you have to do is look at firms and ask what their export capability is. If the major firms are foreign controlled, will they really want to export more to the United States under any free trade agreement when they will be competing against their parent company? The answer on a long-term basis is the United States government would not be happy with that.

If you are dealing with Canadian firms, you have to look at their export capability. If you go through the individual firms area by area, you find our firms tend to be very small and tend to make the low-technology end of things.



In looking at the area of miscellaneous equipment, which includes pumps and cranes and everything you might want to think of, I looked at 750 firms. Invariably, in each area the Canadian firm was small and made a limited range with low technology, or it assembled basic components that were brought in from the United States and put them in a housing. Then it might export that back. Cooper compressors is a good example. The basic things are all imported from the United States. They assemble them and ship them around the world and ship some back to the United States.

You have to look at the export capability of the Canadian firms. You have to identify the firms and figure out what they can potentially do under free trade. Then you have to look at the opposition they would have in the United States and where it is located. If our people think they are going to ship over the border into New York and there is strong competition centred in Buffalo or that region, then if our firm is a small firm facing regionally located large firms, it is immediately going to run into trouble.

In working with Westinghouse, we knew there was simply no use trying to export back, even if we had been given the right to do so. When I was working at Westinghouse, I had great hopes of joining its international division and travelling around the world selling heavy duty equipment everywhere. I found that Canadian nationals were not allowed to join international Westinghouse. If you were an Anglo-Saxon raised in Brazil and received your engineering physics degree at the University of Toronto, you were hired, but the Canadian was not.

The reason was they did not want Canadians to know the confidential restrictions on trade imposed by the head office. That is a very important point because you have to consider, if it is an American firm, how free it is to export back to the United States.

Miss Stephenson: Does that pertain with the world product mandate concept Westinghouse has developed?

Mr. Atkinson: No.

Miss Stephenson: Are they not permitted to sell internationally what is mandated for world production here?

Mr. Atkinson: In areas where they have gone into that, what they have really done is abandoned American production and centred it in Canada. Some firms are very good on that. Canadian General Electric has a goal of having an even balance of what it imports internationally and what it exports internationally. That is reasonable in Canadian terms of reference and they do that through world trade mandates. That is one of the advantages of that.

12 noon

A disadvantage of it, however, is that we may end up having no production whatsoever in a key area. Someone the other day was raising the question of self-sufficiency from a national interest standpoint. You may end up not producing a particular size of power transformer. If the United States gets into a wartime setting, it may cut off exports of those, and if you do not have the local production, then you are in trouble. Generally, if there is a world product mandate, it is in the nation's interest to make sure it still maintains production of those products by somebody or that it has a production capacity. But you are right about world product mandating.

Mr. Mackenzie: I would like to take you back again for just a minute because you touched a raw nerve in the experience you mentioned--I am not trying to get into the details there--the experience you had with respect to hoping to sell on the international markets with Westinghouse.

During the hearings of the select committee on plant shutdowns that we had a number of years ago, one of the things that hit us time and again, but on which we could not get hard information, was the fact that many of the branch plants were not allowed either to do very much research or to sell in international markets.

You are saying you found out that one of the reasons you could not was that they did not want too many people to know about the restrictions or the kind of internal arrangements that were made. We could not get anybody to tell us really why. We had suspicions, but that happened time and again when we ran into that in the hearings.

Mr. Atkinson: American firms are nationalistic, except where they can make a greater profit--say, in the example of automobile tires I cited to you. Except in those circumstances, where that extra revenue reaches a certain level, they are very nationalistic and they want to maintain employment in the United States. They see that as one of their corporate responsibilities.

If Parker-Hannifin manufactures clamps in the United States on a wide basis, as it does, and in Europe and Latin America on a wide basis, then it will simply tell the Canadian firm, "You deal in Canada." We may want it to export abroad, but on a corporate basis it will simply say no because that is interfering with its production programs in other areas.

When you ask a branch plant to export, you have to look at the structure of the company and where it has plants making the same goods. If it has them, then you are unlikely to get it. That is why I think you have to get into restructuring.

Mr. Cordiano: It seems to me that you should also ask how much of our manufacturing base is foreign controlled or foreign owned. There must be some figures, though I do not have them within my grasp right now. But just to put things in perspective, if we are looking at it from that point of view, foreign-owned or American companies that are branch plants are not

as likely to export as Canadian firms are. We all had this discussion in the past.

Mr. Atkinson: The percentage of ownership varies among areas. In automobiles it is 100 per cent.

Mr. Cordiano: But that is a special case.

Mr. Atkinson: Let me put it this way. It varies according to the degree of technology that is required and the licence control. It is higher where licence control is held tightly.

Miss Stephenson: We have that information because that was provided by the ministry in the graph it produced.

Mr. Chairman: I think the figure was around 50 per cent.

Miss Stephenson: I think it is 50 per cent, excluding automobiles.

Mr. Cordiano: Okay. I could not remember exactly.

Mr. Atkinson: The finding I had by going through the individual companies, though, is that when you enter into negotiations you have to be prepared to look at it on what you might call a subsectoral level and look at individual firms. There might be a subsectoral level that has 80 per cent control and is under stringent restrictions, while in other areas--foundry areas and that sort of thing--where no real technology is involved, there may be a low percentage of ownership.

On the other hand, with the low percentage or the low technology in it, the density of the American production community is much larger; so the competition is much keener.

Mr. Cordiano: Would a free trade environment perpetuate the status quo of the structure of the Canadian economy? Would it allow any flexibility to change that structure? What I am getting to is the fact that if we are going to become better at what we do and enter into the higher-technology areas, how are we going to do that in a free trade environment if we cannot move into those areas because we are not competitive in them?

Mr. Atkinson: It depends on what the free trade environment includes. If free trade means licences to produce goods are going to be put on a generic basic, such as for drugs, so anybody can use the licence--for instance, if a licence is held in the United States and a Canadian firm has automatic access to it--that might improve trade.

A great part of the problem is that the licence is held by American firms and they control who gets it. If they want to ship into Canada, they will not allow Canadian firms to make it. If free trade includes free access to licences, that is one thing. If it does not, that is another thing.

We have problems with licences. We have not been very



successful, again because of the ownership factor, in getting licences in Canada. One of the things I have always urged is that the federal government and the Ontario government should spend as much time as possible in trying to get every licence they can and even try to encourage people to set up firms to use those. Where there is a licence agreement and where Canada is a party to many international licensing agreements, that gives control of production.

We have other problems that enter into this. Let me refer to one thing that is a pet peeve of mine. If you look at aviation companies around the world, those countries that have successful production have a number of things. They have a university or a higher-level technological facility, to which is attached an aeronautical establishment, which is a full set of labs, and which gives instruction at what you might call a post-doctoral level. That exists in Brazil, the United Kingdom, the United States, Spain, Sweden, Holland, Germany. Germany has two institutes, one near Messerschmitt and the other near Dornier. We do not have that.

If you go through the universities' various calendars and specifically pick out industries where you might want university technological support, what you find is that in Canada there is not that support which is given in other countries. For example, in fine chemicals and dyestuffs, Germany, which is a world leader, has an institute. That is the pattern in other countries. We do not have it here.

It was mentioned that de Havilland had a research establishment with 500 people. That would normally be a government-financed thing in another country. If you took the cost of that away from de Havilland, it might be running at a profit. Other countries regard that as part of their basic backup for industry. We have very little basic backup of industry in Canada.

Mr. Cordiano: We will not have to worry about de Havilland and Boeing. We will buy them out and take the research staff; they will have their own research staff.

Miss Stephenson: What do you mean by we will buy them out? We have already bought them out.

Mr. Cordiano: Boeing will buy them out and research will go elsewhere.

Mr. Mackenzie: We have Suncor.

Miss Stephenson: Who had any Suncor?

12:10 p.m.

Mr. Atkinson: There is one other factor I want mention. A person in my position, looking at an international thing, does not believe what anybody says. Businessmen say that in the United States there are too many government reports they have to fill in and it is a hell of a waste of time. They want to get rid of all those and then they will be able to operate more efficiently. That is said in the United States and it is picked up in Canada.

In Canada we have basic data put out by Statistics Canada, in the way the Americans do, on 25 industries. The Americans have it on 1,000 industries; they can tell you the employment in an industry, and they can tell you the imports and exports and the production in terms of constant and current dollars.

Mr. Cordiano: They do that internationally with other firms, do they not?

Mr. Atkinson: Our 25 include all their 1,000, which was increased from roughly 300 as of 1984. In addition, in each of these industries their government has an expert who carries a watching brief on the industry. We do not have that, and our thing is based on a conglomeration of 25 of their 1,000. When you were talking the other day about having the knowledge to handle this, that is the extent of the gap of knowledge.

You find very interesting things in the American figures. In the durables, the so-called smokestack industries, on a constant dollar basis, their output has been static for the past 20 years. Since the consumption of those goods has been static, they have tried to swing to exports. For example, only in the past two decades has Caterpillar set up research establishments in Europe. They have tried to compensate for the slowdown in their own economy by switching to Europe and the Far East.

On a constant dollar basis, the basic industries of the United States, fundamental construction machinery, etc., have been stagnant for years. That is why I mentioned that there were import problems under Eisenhower; it was just before he came in that the industries turned stagnant, and that is when the first American problems came in.

There is one other thing I want to mention, and it is a very important point that people should remember and apply to optimistic things. When I started with Westinghouse, I was given the assignment of developing what are called "saturation curves." In short, within three years, how much of a particular market will you have sold for television, how long are your sales and what happens to the pattern of those? You find they go up to a peak and then go down; then a second set of replacements picks up, but it never picks up the total of the original surge. That applies to every new product that exists; it also applies to home computers, for example.

In practice, you sell the easy sales first; then you get into application engineering, and then you are into the harder sales. The result is that you never get your total expectations and you always have this saturation curve. When somebody says, "We expect over the next five years that our output in the industry is going to go up by 30 per cent a year," you know that will not happen.

Before the United States got into the idea that it was going to have to cut down on imports, which is the current policy, the idea was that this growth of 30 per cent per year in electronics was going to replace the smokestack industries. With that and by getting additional income from services from abroad, they would

offset the problems with balance of payments. Unfortunately, the other countries refused to let the services go, because that meant transferring the employment back to the United States. They are not going to get the services, no matter what they may wish for, and unfortunately they ran into saturation of markets on the electronic end. That pushed them into this thing.

When Ottawa is negotiating with the United States, it has to look at what the United States' expectations have been and realize there have been disappointments in those expectations.

The problem I ran into was that in Canada and other countries you look at what would be best for your position and you develop justifications for the virtue of your position. Then you feel that because those virtues exist, the other countries will concede those virtues and give you what you want. You also have to look at what another country considers to be the virtues of its position and recognize that if it is a much stronger country than you, you will not get it.

Faced with the situation, you may have to decide, as I think is the answer, to analyse industries and make the point that you can set up a framework to discuss these things. However, you are going to have to consider what you can do with your industries to make them internationally competitive and not do anything until you have done that.

Miss Stephenson: Do you really mean that? Do you mean we should not even talk to them until we know precisely what we need to do with individual industries? It seems to me that is somewhat suicidal at the moment, given the attitudes that are being demonstrated so clearly in the United States.

Mr. Atkinson: Ottawa has evidently made a shift from talking enthusiastically about free trade to talking about enhanced trade and now is talking about a framework for negotiations. You have to get into frameworks for negotiation.

Miss Stephenson: Surely what we have to do is start talking to them so we can try to find out what they want.

Mr. Atkinson: Precisely. It has never happened diplomatically.

Miss Stephenson: And it never will.

Mr. Atkinson: Right. You have to talk with them and, if necessary, you have to find reasons you cannot come to conclusions in particular areas; that is part of the tactics. However, you have to know you are going into it on that basis. Ottawa has to go back to Mr. Bennett and explain that is exactly what is happening.

You have to speak to your businessmen. I do not think you do it in a public forum. Excuse me for saying so, but there are occasions when governments speak to their industries through private moral suasion, to alert them. I know it happens in the United States and Europe.



Miss Stephenson: That happens here.

Mr. Atkinson: Certainly, okay.

Miss Stephenson: It is not necessarily effective.

Mr. Atkinson: I do not think you can go full ahead, nor should you be saying publicly that you are going for full free trade.

Mr. Cordiano: That has already happened, though. It has been stated.

Mr. Atkinson: It is a very difficult thing to look at, but if you do a crude calculation and say that if we move the status of Canada as a whole up to the level of the participation of other countries in just high-tech durables, then you are going to create perhaps 400,000 to 500,000 new jobs. That is if we move up to employment levels, which means the activity levels they have. That would come with reorganization.

There are two aspects to the question of jobs we would lose. One is the loss we would incur because we might deny ourselves the capability of doing that. The other factor is the danger of American firms retracting their plants to the United States. That has happened, and I am not sure it may run its course through the more likely candidates.

To be honest, one of the problems I have is that American data are up to date, while Canadian data are four years old. The last list of firms in the electronic industry, with respect to actual production and output by Statistics Canada, was produced in 1981. You would know that. It is almost impossible. You have to look at the generalized things about which I have been talking.

My feeling is that Canada must decide whether it is going to sit down with its industries and say: "These are the facts of life. We are going to be forced into an international environment whether we like it or not, and we have to upgrade our industries so we can deal on a competitive basis."

12:20 p.m.

The Liberal Party, of which I happen to be a supporter, has always held the idea that you have to have rules on the size of businesses and the share of the market they can handle. That is the rule, and the latest revisions talked about in Ottawa follow that pattern. It may well be that you have to designate certain industries as being export-competitive or having export potential and make different rules for them. The restrictions we have put on are derived from the United States. They may not apply to Canada.

In other countries of our size, or in individual countries of Europe, they use the type of restriction about which I have just been talking. Obviously, if you have an area where people are making garage doors, which is a big thing in Canada--we have a lot of firms making power-driven garage doors--

Miss Stephenson: The difficulty is they do not need them very much elsewhere; so it is a domestic industry.

Mr. Atkinson: That is right. They are not export-sensitive and they are not import-resistant. There is no international trade in them. You have to look at the realities of the trading world you are in. If your market is such that you have to designate certain sectors as being import-susceptible, then you have to reorganize. The more you make, the logical thing is to reorganize. They are going to have to be big enough to survive. If you want to export, you are going to have firms that are capable of exporting.

In this line, European countries in the electrical field may have firms in electrical distribution equipment such as ASEA in Sweden or AEG in Germany, or electronics with Siemens in Germany, that dominate their field but may be small potatoes in the international market.

We have a multiplicity of small firms that do not have enough economic clout. They cannot afford research, cannot get the financing and do not have the level of management that would give them exporting expertise. Their engineering staffs are very low and they tend to take enormous chances on their ability to produce a product that is acceptable.

The firm I was with, Powertronic Equipment, supplied most of the distant early warning line standby generators and none of them worked for three years. If the power goes down, you cut in a diesel generator. They would produce 60-cycle voltage. None of the equipment would work and they could not solve it. They had done it in anticipation of being able to solve the problem. That is common in small industry. That is one of the reasons so many of them go bankrupt.

My feeling is that if Ontario and Canada decide they are going to be internationally competitive and compete in world markets, and take the steps other countries take, then Canada will increase its employment. It is very difficult to set a level by which that increase would take place, but it nevertheless would be substantial.

On the other hand, there is a danger that if we do not do that but go into a free trade thing without tackling some of the problems I have mentioned, we will lose substantial employment and deny ourselves the capability of increasing employment.

Mr. Chairman: That was very thought-provoking and I appreciate your taking the time.

Mr. Atkinson: I am sorry to have thrown so many facts and figures at you.

Mr. Chairman: You obviously have a lot at your disposal.

Mr. Mackenzie: I would like to say I appreciate the overview we got.

Mr. Atkinson: Perhaps I could make one suggestion to the committee as a facts-and-figures man. When you have economists before you, I suggest you ask them to produce their working papers. On the committees on which I have served--I have sat down with Don Grant of Wood Gundy--many statements are made that simply conflict with the facts, the structure of industry and the structure of other economies and that sort of thing. I think anybody making a statement could well be asked if he would at least drop off supporting papers.

Miss Stephenson: Some of them have.

Mr. Chairman: Some have and some have told us there just are not any and we have to make a leap of faith.

Mr. Atkinson: As a man raised in the mining area, as soon as anybody starts to talk in terms of theory or about expectations of the nobility of other people, that they will do things or that we should have faith in the future, my poor ears automatically close themselves; I am very sceptical.

Mr. Cordiano: We are also awaiting the Ministry of Industry, Trade and Technology.

Mr. Chairman: They said they would be back at the end of this month.

Mr. Cordiano: It should be some value to all of us and put some perspective on some of these figures we are talking about which are not available to us.

Miss Stephenson: The difficulty has been that in the past there have been some exercises undertaken, particularly at the federal level, which achieved a certain level of completion but were never finished. They stop three quarters of the way through. As a result, we have a hotchpotch of incomplete figures which has been being developed for about a decade but most of which have never come to fruition. Either the minister changed or something changed at the federal level and it all dissipated and went nowhere.

There has not been within Canada, within the federal government particularly, any commitment to a careful collection or collation of the kind of figures that the US government department of statistics has produced. It is just phenomenal compared to ours.

Mr. Cordiano: We should have an independent government department to do that, outwith partisan politics.

Miss Stephenson: Statistics Canada is supposed to do that. That is what Statscan is set up to do. It collects information but because its aura has not been entirely--

Ms. E. J. Smith: Free from politics.

Miss Stephenson: It is not only that. It is the fact that people have been worried about whether it was doing what it was supposed to be doing and doing it objectively, or whether it



was flubbing the figures and messing things up from time to time. There has been some history of that.

Business is very reluctant to provide information to Statscan directly. The information is provided to the Ministry of Industry, Trade and Technology as long as the ministry does not identify the company to Statscan. That throws the whole thing into a mishmash because Statscan has the statisticians to do the job.

Mr. Cordiano: Sure, but there is also the question of strategic security which most of these companies are concerned about.

Miss Stephenson: Terrified about.

Mr. Cordiano: Exactly. If it is not confidential information, then I agree, but why reveal the kind of information that could be damaging?

Mr. Chairman: Surely American companies have strategic security too.

Miss Stephenson: Equally, if not more so.

Mr. Cordiano: Absolutely, but the Americans have set up a bureau--I cannot for the life of me remember what it is called; I think it is part of the Pentagon, as a matter of fact--which collects information internationally on multinationals and national companies.

Miss Stephenson: Yes, it is also defence-related.

Mr. Cordiano: There is some incredible information, which I have seen. It is strategic information.

Miss Stephenson: Strategic information related to business is not necessarily only within that. There is a private institute and public institute connection in the states which has been extremely effective in that area. We do not do that.

Mr. Cordiano: That is something we have to have, if we are going to get the kind of information we need.

Miss Stephenson: I defy anybody to persuade our universities that they should be beginning to establish these industry-university-institute links that are so tremendously effective in Germany and in other places. Our academics are petrified.

Mr. Mackenzie: We have a steel institute.

Miss Stephenson: We have a couple of institutes but we do not have any strong industry connection at the moment. They have been primarily supported by government, and that is not enough. Waterloo is trying hard with the computer industry and is going to make it one of these days, but that is an uphill battle.

Mr. Chairman: And to some extent they are looked down on by other universities because of it.

Miss Stephenson: Which other universities? What are they looking down on?

Mr. Chairman: The general approach to industry that Waterloo has.

Miss Stephenson: That attitude may be changing. When the foreign visitors come from almost any country in the world, the first university they want to see is Waterloo. They are all interested in co-operative education and Waterloo is the second largest in the world--

Mr. Mackenzie: We do not always set the best example ourselves. I recall a hell of a lot of work that a lot of people put into the select committee on plant shutdowns and employee adjustment that I talked about, and I know there were a couple of committees before that.

Miss Stephenson: Where is all that?

Mr. Mackenzie: I do not know where it is, but we could not get the committee reconstituted after the 1981 election. The committee died and never did make a report. That is why we issued an interim report of our own on the damned thing. All the work that went into that just died and, as you know, we could never get it reconstituted after 1981. We had done about two years' work on the committee.

Miss Stephenson: I recall it, but I did not know it was--

Mr. Mackenzie: It just died when we got a majority government.

The committee recessed at 12:30 p.m.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, AUGUST 22, 1985

Afternoon sitting



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LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, August 22, 1985

The committee resumed at 2:06 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Since perhaps our very first session we have been talking about hearing from Jack Warren, I do not think he needs any further introduction. Mr. Warren has agreed that we may interrupt him, within reason, if we feel so inclined.

MR. JACK H. WARREN

Mr. Warren: I was very appreciative of the committee's invitation to appear before it. I hope I will be able to add something to the committee's thinking on this rather important subject, but I hope you will realize that I have not been directly concerned with commercial policy matters for some wee time. I am not, as it were, a current practitioner in the field, although I have followed the developments in our trade policy with, of course, continuing interest.

I thought I would first table with you two documents for your information. One is the submission, which is relatively brief, made to the special joint committee of Parliament on Canada's international relations by the Task Force on Canada-United States Trade Policy.

The task force, which is chaired by David Braide of CIL, brings together the horizontal business organizations of Canada and representatives of the chief industrial sectors and regions of Canada in an effort to create a broadly based sounding board for the federal government as it tries to develop its consensus, its positions and its consultations on the questions that are before it with respect to trade policy, particularly the question of freer trade, or whatever the right words are these days, with the United States.

Second, I thought you might be interested in the analysis in the Bank of Montreal submission, which was made in response to Mr. Kelleher's paper on access to markets. I have been a participant in the thinking of the task force and in the evolution of the Bank of Montreal's position as submitted. Therefore, what is in these two papers is broadly reflective of my personal position, which I am representing to you today.

If you are willing, I will make just a few points. Then in whatever we can do by way of dialogue, I will try my best to help.

My first point is that we are living in a much more rapidly changing and a much more interdependent world than has been the



case historically, and this trend has been accelerating. That being the case, and whether one likes it or not, change is the order of the day. We are seeing new production patterns, new trading patterns, new technologies, the expansion of the service industries relative to the goods-producing industries, new suppliers and new clients of old suppliers.

All this is a world in which Canada has to remain efficient, productive and competitive, if we are not to fall behind as one of the industrially advanced countries; so it behooves us, generally speaking, to look carefully at the maintenance of our efficiencies, productivities and competitiveness.

That need for Canada, as we see it, is not simply a function of trade policy. It is a function of the mix of economic policies in our country, our regions and our provinces that bear on investment, production, rigidities in the economy, the taxation system--all those elements that go into the making of productive investment and employment decisions.

But trade policy is for us an integral and essential part of that complex. I will not bore the committee with the figures, because I am sure you have had them from so many people, but we are talking in trade terms of a third of our gross national product, probably a third of our employment. If we were thinking about the physical product in Canada, excluding services and other trades that are nonphysical, I suppose we are talking about more than half of the goods that come out of our country that have to find a place in the world market.

When you think in such proportions as three quarters of those \$85 billion of exports going to the United States, what happens on that side of exports and imports is a critical matter for our economic health and for our employment. To take an adequate part in that, both from the point of view of being able to sell into third markets and also, perhaps as important and often overlooked, being competitive vis-à-vis imports in the Canadian market, you are back again to questions of how good are we, how productive, how competitive, how adaptable and ready to change and take advantage of new opportunities, because this is a changing scene?

In my view there is no static photograph; there is no such thing as a status quo. To cling to it probably means to go backwards. That being the case, how do we sit? Canada has not been keeping up with its earlier position as a world trader. We are still, of course, one of the most advanced and productive of countries, but the competition is intensifying and I believe we have to move with it.

We are in a country now where we do not see quite as strong a demand worldwide for some of our traditional resource goods, where the competition from the developing countries in these areas is strong. Agricultural trade and the problems of protectionism and subsidization in third markets are well known to the committee. The technology is changing. The employment growth is moving from hard goods to services.

We have to recognize that in that changing world we have to find our place and try to manage our place at the forefront of those changes, not at the back, having adjusted too late to market opportunities. One of the features, which is not new but perhaps more intense because of what has happened to the United States trade deficit and the value of the United States dollar, is the perhaps understandable mood of protectionism which is influencing the United States Congress.

If you have an interlinkage, such as we have with that market, then the chances of being caught in the whiplash of measures which the Congress may take--some possibly directed at Canadian exports but probably as likely addressed to other people, which will have an impact on Canada--suggest to me that it is most important we try to manage that relationship.

By managing it, I am thinking in terms of engaging the Americans in a negotiation, which would be designed to discover--both sides having done their homework carefully and having measured the feasibilities, but neither side having tried to determine before negotiation what the results were--how large a deal could be struck that would be responsive to the interests of the United States and Canada and, given their different situations, the disparities of size and all those things that would have to be taken into account, to see just how big a deal could be struck.

That is not to say that we would be departing from our long-established tradition of trying to open up all the markets that would be useful to Canada, but that is very difficult to do short of a multilateral trade negotiation. It has been very difficult for the Americans and their allies, which include Canada, to get any such negotiation going, particularly one that would include some of the new areas, such as services. It looks as though it may take some time to get that negotiation going. If we remember the time span of earlier negotiations, we might be talking of five to seven years before we have a result.

Consistent with a priority for world trade liberalization with careful safeguards, we should have a look at what should be done with the United States, probably in the sense of something that could be fitted into the General Agreement on Tariffs and Trade because it has provisions for free trade areas or interim agreements leading to them. The folklore in GATT has permitted a number of agreements that fall a good deal short of the classical definitions of these things. They are seen as these kinds of areas.

I use free trade there in the sense of GATT, but carefully understanding it is a matter of the degree of liberalization. There probably is not anything as free as classical free trade anywhere in the world. It is a managed liberalization of a very considerable extent you would be seeking.

Ordinarily, I think the Americans would not be terribly interested in bilateral negotiations with Canada because they have major interests in all the main marketplaces. Like Canada, they have benefited from the application of the most favoured nation

principle. However, they have been importantly rebuffed. That may be too strong a word, but it has been difficult for them to engage their other trading partners in meaningful negotiations on a broad scale. The President of the United States and Prime Minister of Canada have said, "Let us have a look at what might be the parameters for liberalization of trade between us."

There has been a time during which the Americans have been quite careful. They have not made any proposals. They are waiting for the Canadian government to make up its mind. There may be a window here in which the Americans would be prepared to engage in a negotiation. It might be an opportunity that would be a long time coming again. Getting those things started before Congress becomes critical again, politically, does not leave much time for decisions.

It is my belief, if one were sincerely engaged in a negotiation with the United States designed to find out whether there were the makings of a comprehensive deal, however that word would be defined in the negotiations, there would then be a disincentive for Congress and the administration to do anything which would upset that negotiation unnecessarily.

That is not to say that if Canada were doing something in their market that was subject to injury action, that would be foresworn. However, I think there certainly would be a disincentive to less than responsible resorts to protectionist measures if we were so engaged.

We should try to get a process going to see what is in it for Canada. Of course, as I said earlier, that means doing the homework well. By that I do not mean studying the problems to death, which is a well-known bureaucratic technique. If you want nothing to happen, you keep calling for more studies. At some point you have to decide whether you are going to go to the table, but you should go extremely well prepared. That is what we should now be doing with the United States while there is still time.

Miss Stephenson: May I just interrupt for a moment? While I appreciate your expression, "having done our homework," we were informed this morning, and there are suspicions in some of our minds, that the degree of sophistication and detail in the information available to us, to those who will be negotiating as Canadians, is significantly less than that available to the Americans who would be negotiating. How can we expect to have a fair basis of discussion if there is a major disparity in the quality of the information from which we do our homework? Would you disagree with that?

Mr. Warren: I would tend to disagree. The size of the Canadian economy is such that with a little time and care--it is not as though you were starting from scratch. Each of the ministries has been studying each of these sectors. If I understand what is in Mr. Kelleher's mind, you will have sectoral committees this time, in some contrast with what we had last time, and a much closer working relationship with the business sectors than previously.



2:20 p.m.

The economists do their work and they do not always agree--

Miss Stephenson: Sometimes they do not even do their work.

Mr. Warren: --but the Americans will have their sectoral people gingered up, and I assume that Canada will and should, too.

Miss Stephenson: But with experience on both sides of the border, this is why I am asking for your opinion about this. We heard very strongly this morning, for example, that those who would be taking part in this discussion on the American side had available to them fairly detailed information about a thousand industrial channels or sectors or whatever you want to call it, whereas we would have available to us something in the order of 25.

Mr. Warren: I do not know about the numbers, but I think I would rest with my proposition that we need to be well prepared. You do not have to have a mirror image for preparation, because the Canadian system is well known, but it is essential to be working with those who really know the industry and have an economic background as well.

Personally, having negotiated many times with the United States, I think the Canadian negotiating team sometimes has elements of flexibility that are very helpful against a massive negotiator.

Miss Stephenson: Who is rigidly upheld by an army of statistics.

Mr. Warren: They have to find flexibility, too, but in past negotiations the Americans have usually reported back that the Canadians took them, and somebody else reported back that the Americans took the Canadians. It usually means we struck a pretty tough deal.

Mr. McFadden: May I ask a question?

Mr. Warren: Do you want me to start the discussion? I just have three points to finish.

Mr. McFadden: I can hold off.

Mr. Warren: Essentially it is not either/or. We certainly want to support the multilateral trade negotiations. It may be that we can do some innovative work in services with the Americans that will be helpful in making for a better multilateral negotiation. We have to do so because tariffs are already down so far for many areas, although there are some protected peaks left on both tariffs.

We have to deal with the nontariffs. The nontariff side will probably involve provincial authority in some part; so I think they will have to discover some newer and more intimate way of

bringing the provinces into contact with the negotiations as you move along both in the preparation and the negotiating process.

We obviously have to recognize that there are going to be impacts if we liberalize. The manufacturing services sector is very important to Canada as a whole and it is particularly important to Ontario. In that area there is going to be both challenge and opportunity. You can say the adjustments that may be required by a freeing up of trade to a certain degree, or to whatever degree proves to be negotiable, will have a greater impact in Ontario than perhaps elsewhere; but the opportunities that may be open to Ontario will likewise be the greater because this is where so much of our action is.

My feeling about the province is that if the government decides to go to the table, you should probably try to get in there and influence those negotiations, just as much as the Ontario representatives can, and help to try to manage the result in a way that is as beneficial as possible to Ontario. When I say this, I am thinking of the longer term. When I think of employment and jobs, I am thinking of jobs that are going to be sustainable and viable in a dynamic and changing world.

I guess my message is that I hope we will have a look with the Americans and have the courage to walk away from the table if the deal does not look good for Canada; but my impression is that if we are going to negotiate, Ontario is too important a part of our country to stand aside in any way. We have to get in there and try to make it happen in ways that are sensible from the province's point of view.

Mr. McFadden: I have basically a two-part question. I know, Mr. Warren, that you have an outstanding background in the diplomatic area, in previous GATT negotiations and so on. We have received some very conflicting information about our negotiating over the years. We have had people refer us back almost to the last century on what has happened.

On the one hand, people have referred to our negotiators as everything from vestal virgins to Clem Kaddiddlehoppers, country yokels who come in and whom Americans regularly take advantage of. On the other hand, we have Professor Lipsey, who said yesterday that Americans say we are the toughest negotiators around. He has been to speak to them and they say Canadian negotiators are very effective and tough.

I wonder whether you have any comment as to why we have such a wide variation in views as to our past effectiveness in negotiating.

Mr. Taylor: That is without getting into self-appraisal.

Mr. Warren: That is right. I was going to declare a triple conflict of interest here. I guess perhaps the easiest way is to try to answer your question as best I can.

Trade by its nature is supposed to benefit both parties. The notion that the export is good and the import is bad is naïve and

incorrect. Somebody's import is an input to production, to an eventual export of a good or service.

A good negotiation is one where you have pushed the other fellow and he has pushed you to the brink of the politically possible, where you have gone slightly over that brink and you have gone back for the last drop of water you are prepared to give and the last drop you can get from him.

If you can piggyback the influence of Canada on a problem about which the Europeans are mad at the Americans, or if you can join with the Americans and go after the Japanese on something, that is the way you do it.

The biggest part of all our multilateral negotiations has always been the package where we were the principal or secondary suppliers between Canada and the United States. That was one of the toughest parts of it. The Americans often have accused us of being free riders, shortchangers--you name it: "Canadians, always getting the stuff but never being willing to pay." That used to be the song down in Washington.

Bob Strauss was good enough to say we were a tough negotiating team with Rodney Grey and people such as that. The real answer is that you press out a deal or you do not have a deal. I think the negotiations between Canada and the United States on the multilateral side have been fair and with good results for Canada.

You can imagine how concerned the Canadian Manufacturers' Association, for example, was when we went into the Tokyo round. By the end of the day, because they had been consulted, those industries were by and large on side and the result has not given rise to much criticism in the years since.

If somebody wants to make a point to stop you from going to the table by saying, "The Canadians are too naïve to negotiate," he is wrong and probably is hiding a different point under his observations.

Mr. McFadden: Another point raised has been the makeup of the negotiating teams and the advisers associated with the teams. The point has been made to us--I think you already alluded to this--that over the years the Americans typically have involved industry sectors very directly and there was constant communication, as we understand it and have been informed, between the negotiating team and all the various groups that might be affected.

The suggestion has been made to us that in past negotiations Canadian industries and interested groups did not have much of a relationship with negotiating teams; somehow the negotiations seemed to go on to some extent quite removed from the people being affected, whereas the Americans had quite a tight interface.

First, is that an accurate expression of what happened? Second, I take it that what you mention about involving the various economic sectors, which has been suggested by the federal government, would indicate a change from what happened previously. Is that accurate?



2:30 p.m.

Mr. Warren: To my memory, it has been an evolutionary process. I suppose there was a time when the makeup of the Canadian economy was sufficiently simple that you did not have to have elaborate frameworks to get a picture of where the steel industry or whatever was. However, increasingly there has been concern in all the major countries that, as you move tariff walls down from the very high levels that were built up in the 1930s, there was a lot of water in those tariffs and that you could make a tariff deal without coming even close to impairing the competitive position of your industry at a given exchange rate and still find something to give to the other guy.

As those successive multilateral trade negotiations went on, you got closer and closer to the point where tariffs were meaningful to industries. At that point, quite understandably, someone manufacturing a piece of machinery became extremely anxious that Canadian negotiators did not diminish his protection to gain a concession, let us say, for aluminum ingots. Both these things were Canadian interests.

What has been happening is that more and more industries have wanted to say: "I may not be too happy about having to change the status quo, but if you are negotiating, I realize we are going to have to get in there. We want to be very influential with you in deciding what to concede and what the main objectives are for our industry."

In the Tokyo round, which is the last one I was directly concerned with, we had several levels of awareness with respect to this issue. People made public statements and wrote to the ministers, to members of Parliament and to members of the Legislature, saying, "Don't touch me, tariff," or: "Why are we in this negotiation? It is a disaster. The industry will be wiped out."

Simultaneously, they had probably responded to the government's invitation to submit briefs. In those briefs they had probably listed some of their export objectives. They had probably been called in and been asked: "How can you ask for the achievement of those export objectives if you are not prepared to offer anything on the import side? How about that?" They might begin to discuss things with you.

That is about where it was when I came back from Washington. We set up the co-ordinator's office, and in that office we had the selected spokesmen and leaders of the different industrial sectors. They came behind closed doors and spoke to us in secret, on the understanding that they could walk out the next day and say exactly the opposite of what they had told us on the public platform in terms of the public image they wanted to create among the political leadership with respect to their industry.

In private they told us what not to do and what they felt they could do if they had to, if there was enough in it for them, but thinking in terms of their sectors. More and more, you move towards sectoral balances, thinking about what it going to happen in the petrochemical sector, in textiles and so on.

The Americans have reflected this in the formality of their legislation. They are required to have vertical committees and to have horizontal committees made up of the membership of the vertical committees and to have policy advice. They work very closely with the American negotiators. There is obviously the odd meeting at which people are not present, but it is minimal on the American side because they have to get it through those committees and eventually they have to get it through Congress.

On the Canadian side we work much more intimately than we did before with the industrial and agricultural sectors. I suspect it will have to be even more intimate this time, and I suspect the provincial dimension will have to be more intimate. If you are beginning to talk about bringing a certain element of provincial procurement under some kind of international discipline, the question is what the province can volunteer and what the legal validity is of an undertaking by the province internationally.

If I have read correctly what Mr. Kelleher said and they move towards serious discussions with the American this fall, I expect they will be creating a structure of industry committees. I do not know whether they will be sworn--I had to ask them to respect the secrecy of our discussions, and we respected the confidence of the businessmen seeing us--but it has to be very intimate this time because it will be very intimate on the American side and the linkages between our two countries are so close anyway.

Mr. McFadden: May I ask a final question? You mentioned that provinces would be involved mainly on account of nontariff barriers.

Mr. Warren: I should not have. If I have left that impression, it is incorrect. There will be areas of provincial jurisdiction that may be involved as we move into the nontariff barriers and the services, but the provinces have a vital interest in levels of tariffs as well.

Mr. McFadden: I am sorry. I was not getting at that. I was talking about the fact that we have only 10 provinces here that would have to be brought together. Of course, we have trouble getting a consensus among those.

Mr. Warren: Are they not busy at that in Newfoundland or somewhere today?

Mr. McFadden: I do not know if they have reached any agreement; I do not expect they will on this issue.

My question concerns the United States. Many of the states have various barriers to business and trade with regard to procurement, various preferences and so on. How do the Americans deal with their 50 states on matters like that? We could well reach an agreement with them. How do they bind their states to something if it is a nontariff barrier, any more than our federal government can bind any of our 10 provinces?

Mr. Warren: As you are fully aware, they have a very different constitutional system. The states do not have the same

power the provinces have under our new Constitution. They are in a greater position to give undertakings about the freedom of commerce within the United States than we are. Some elements of buy-Michigan, buy-Illinois or whatever could probably be tested in the courts in the United States and found an improper interference with commerce. The position of each state in developing a position, implementing negotiations and getting it through Congress is much less important than is the case in Canada.

We will have to be innovative in finding some way in which assurances a province may wish to give for value received from the total economy can be seen as meaningful by a third party that has negotiated in good faith with Canada. In that connection, the experience I had in getting assurances from the provinces that they would bind their markups on alcohol and limit the discrimination in favour of domestic wines has not been an entirely happy one.

Mr. Knight: You mentioned there being a window of opportunity, in that there is a critical time frame with Congress, and perhaps it should be used. Were you talking about us getting involved in discussions just to the extent of negotiating what we should negotiate or about us entering directly into some wholesale negotiations with the United States?

I ask that because I heard you indicate we had to do our homework and you felt it was within our abilities to get ourselves up to stump with respect to statistical information. Were you talking about trying to keep the door open with them or about something else?

Mr. Warren: My view is that there is a sort of timetable for looking at these things with the Americans which was agreed at the Quebec summit. There will be an opportunity this fall to tell them whether we want to negotiate in a comprehensive or sectoral way or whatever it may be. The sectoral option so far has not shown much sign of success or of being mutually advantageous.

The negotiation of a comprehensive or liberalized arrangement, or an agreement as wide as is practical, is not going to be finished by next spring or the one following. We could get the process started, if we were ready to see what could be done by way of bilateral trade expansion or liberalization of Canadian tariff and nontariff barriers, and find out from the Americans, "Are you willing to go to the table to see what we can do?" If the answer on both sides is affirmative, that decision needs to be made before life becomes too political again in the United States.

2:40 p.m.

Mr. Knight: Inasmuch as there is a problem with Ontario or any of the provinces becoming directly involved in an international setting, even if the federal government decided not to proceed with the timetable that has been tentatively indicated, or if it does, what would be your thoughts on there being some dialogue between the federal and provincial governments? We keep hearing about the diversity of thought from the provinces, obviously because of regional interests, as far as free trade



agreements and bilateral trading with the United States are concerned? What are your thoughts on there being that kind of dialogue politically, either as we go on or privately?

Mr. Warren: There must be, for the negotiations to be as extensive and fruitful as they should be, if the opportunity is to be sought. In the Tokyo round, I was working in confidence with provinces throughout the period in which I was in charge. The then deputy minister would come up with perhaps two or three people, and after having received Ontario's briefs, input and so on, we would sit down and tell them where it was at.

In those days we did not say: "All right, this is the final bottom line. On tariff item 23(43)(D) subsection (c), we are not going to go below eight." But they were able to walk away from the room knowing we probably were not going to go below eight. We had to reconcile in the negotiation the great divergencies of interest which would reflect not just provincial jurisdictions but the differences in the economic interests of our regions. It is the nature of Canada that the federal government eventually has to try to get that put together.

There was a very good example of that in the last negotiations. In petrochemicals, as I recall, there was an opportunity to do rather more in terms of US and world tariff reduction than turned out to be the case in the end. We had to find what we could put on the table if we wanted to get the advantages in the petrochemical market that were sought by many of the companies in Canada.

There we had a really fascinating case. The people who were interested in new plants out in Alberta would have gone to free trade, while some of the older chemical companies in eastern Canada were very fearful of what would happen to their position in this market and such small exports as they had if the thing was all opened up.

Eventually, with the help of the Canadian Chemical Producers' Association and of certain wise men of that industry, a position was hammered out which Quebec, Ontario and the eastern and western industries could live with. By the time we got that put together, some other developments had taken place in the negotiations; so we were not able to put through as big a package.

That will have to be done in great intimacy, and the provinces will have to realize that not each province can have everything it wants but that the wellbeing of the Canadian nation is also intimately related to what happens in our different regions.

You can say the interests of Ontario or of Alberta may be somewhat different, but the prosperity of Alberta is a very important element in Ontario because, with Quebec, this is the industrial heartland of our country. The total wellbeing of Canada and its growth and flexibility and dynamism are of great concern, in my mind, to Ontario. Therefore, Ontario has to be conscious also of some of the aspirations of the rest of the country because, in my view, yours is a position of very great responsibility in this prospective period if we go to the table.

Mr. Knight: And because of the responsibility we have, it is something we have not brought out during our discussions. You are the first person with experience in diplomatic and commercial activities who has brought that kind of perspective to our discussions. We should be making sure that those kinds of discussions, provincially and federally, take place and, one would hope, even prior to it.

Mr. Warren: They have said in the little task force paper that I left with you, in paragraph 6 on page 3--it is only four lines: "The involvement of the provinces is of key importance, especially since many of the nontariff measures which affect Canada-US trade are of provincial origin. The task force urges that federal-provincial consultations be viewed as an integral part of the process now under way."

That does not say exactly what the modalities are to be, but that has to be worked out with input from the provinces and the federal authorities, whoever they are.

Mr. McFadden: With regard to Mr. Knight's question, you touched on something we would have to be concerned about. The terms of reference of this committee include looking at the other provinces. We have not spent a lot of time on that to date because our concentration has been on trying to look at Ontario's interest.

The way things seem to be going, if you follow the newspaper articles and some of the discussion, is that Ontario potentially could be hurt more than any other province by a free trade area; you get a bit of that feeling coming here. I am not talking about sectoral; I am saying if we open it up completely and have some sort of major, comprehensive free trade agreement, we then move on to the sectoral free trade and all the complexities that has.

Based on your work in this area and having had to look at the interests of the different regions, would it seem to you that Ontario potentially is more vulnerable than other provinces to a liberalization of trade, especially with the United States? Do you think that is an accurate impression being given by the newspapers and, to some extent, by people appearing here?

Mr. Warren: No. It should be clear from what I have said that Ontario--if you want to measure it province by province, probably Ontario and Quebec--probably would face the largest measure of adjustment of existing patterns. I do not necessarily equate adjustment with hurt. If you do that, then you are arguing for the status quo, and with the status quo we are just going to go down and down because the other countries will be moving ahead of us.

Ontario has the industrial and technological base of Canada in very important measure. If, over time, that base can be made modern and dynamic and open to change, with all the other instruments of economic policy that are going to keep us competitive, then probably Ontario has the greatest potential benefits to reap--I think of the auto pact as an example--because it has a bigger base to start with than the other provinces.

To the extent that there has to be adjustment, we are having to adjust anyway, in my view, because the world is moving so rapidly around us with new products and new patterns of trade and production from around the world, so we want to manage that change in a way that will keep Ontario to the forefront. That means the examination of the industry, sector by sector, will have to show where strengths and the weaknesses are. We will have to say in the negotiations that Canada will need more time, that this sector will need that kind of safeguard, at least for a temporary period. Those sorts of things will have to be negotiated out. There will have to be provisions, as there should be now--and indeed there are--for industrial retraining. The fiscal and monetary systems will have to be such that investment can move from places where it is to places where it is not.

The jobs that are so important, in my view, are the jobs that will be available 15 years from now. We want to move our productive labour force progressively from areas where the future is less bright to areas which the market will discover in an environment where the future is more bright.

2:50 p.m.

I know that is a difficult set of concepts because we are also concerned with the high unemployment levels of Canada. My worry would be that if we do not get our industrial and trading and service infrastructure correct and up to speed in changing and adapting, we will be talking about progressively more and more unemployment and not having the capacity to create the wealth in Canada that we need for the achievement of all our social objectives and other objectives.

Mr. McLean: But you feel, if these things take place with the scenario you have just given us, in 10 years' time we would create more jobs.

Mr. Warren: Yes, once the framework is fixed. You will find the businessman and the investor will ask, "What is the framework going to be five or six years from now when these transitional periods are over?" He will start to move his resources to areas where he is going to be viable. He will be facing the pressure of import competition, which is both good and bad, short term and long term. But the product he will be making will have to be something that stands up in world markets and in the Canadian market, and in that way we will be looking at real jobs later on.

Mr. McLean: The interesting part is that a lot of the witnesses who have been before us, and I have observed most of them, indicate that if there is freer trade, we will have more jobs in the province. I have not heard any witness who feels there will be fewer jobs.

Mr. Warren: I do not know. You have to make assumptions about exchange rates and so on. You can probably get a study that shows you that in the short term there would have to be some adaptation in some of our industries that are less competitive and there would be fewer jobs there. That is happening now. You saw



Dominion Textile the other day, and I am sure jobs are changing every day.

We want to create an atmosphere in which we will be moving towards remaining competitive with the rest of the world. Economists say a liberalization of trade should give you a net gain in real income of three to seven per cent or three to 10 per cent, and you can get another economist who says there will be a short-term loss of jobs. I do not think you will ever have complete certainty about those things no matter how many studies you commission.

You would be embarking on a process of change as a policy matter knowing that you had started from a pretty good base in Ontario with a great deal at stake, but realizing that the status quo is not going to make us comfortable in the years ahead.

Miss Stephenson: This is supplementary to what Mr. Warren was suggesting, because the status quo is not even a status quo right now. The rate of change in industry is of such magnitude that in Ontario during the past two years, as a result of a tripartite retraining-upgrading proposal, which has been effective, more than 120,000 currently employed workers have been training in order to maintain jobs in industries that are changing so dramatically they would lose their jobs if they did not upgrade their skills.

We just do not have a static status quo. The kind of suggestion being made is that we can hang on to what we have if we just stand still, but it seems to me there is no possibility of standing still.

Mr. Warren: It is a guess on my part, but I think if we attempted to stand still, probably the sort of investment we need for our development would pass us by, and it would not surprise me if a certain amount of Canadian investment went south of the border because we were unable to open up the package so you could comfortably invest here and service that great market in a secure way. This is a subject we have not talked about, but it is the notion that you should have an agreement that is as binding as it can be, on both the Canadian and United States sides, in which you try to see how you can make the openness of those trade channels more secure. It is a very complex area.

For example, in thinking of countervailing duties and actions to limit imports because of injury and that sort of thing, maybe there is a way in which we could work out with the United States that, if the problem arose from somewhere else in the world, the barrier that might have to be put in place would not affect the two partners in this enhanced trade agreement with Canada.

Maybe there could be some understanding about the extent to which industrial assistance would not trigger some of these safeguard actions on the US side or here. With a number of those things, you cannot be at all sure of the outcome, but they would be worth exploring in order to see whether we can not only have the larger market that Canada so clearly needs, given that the

Europeans, the Japanese and the Americans have it, but also make sure that within that, some of the things that can interfere with your business planning and your trade do not happen. It would be worth while trying.

Mr. Chairman: Excepting the problem that Dr. Stephenson poses about slippage, we have had some people suggesting to us for various reasons that we should be very careful about doing anything with regard to the United States. In the alternative, they are talking about being much more aggressive and moving much more quickly into a further round of GATT negotiations.

They point out that most of our goods move back and forth across the border now without tariffs, and if we were to be more comprehensive in the next round of GATT negotiations, we could have our cake and eat it too. I suppose they are saying the United States is there, but there are all kinds of other markets. On the other hand, I get the picture that to try to do that is whistling in the dark because it would take 10 or 12 years and perhaps would not do very much. Is that the case? If so, why?

Mr. Warren: I do not think it should be thought of as an either/or proposition. It is permissible under the GATT to structure a so-called free trade area or an interim agreement leading to a free trade area. That is consistent with the multilateral agreement, the European common market, the Canada-New Zealand trade agreement, and so on.

Canada should continue to be a very strong supporter of multilateral trade negotiations, an urger, a helper to make the necessary consensus. They are having trouble bringing the developing countries to the table and they have had some trouble with the European Community, especially on the agricultural side of the negotiations. I do not see an attempt to see what we could do with the United States as being in any way inconsistent with strong support with the Americans for the earliest feasible launching of multilateral trade negotiations again.

In the meantime, if we can get going with the United States, that is important for our industrial development, our exports and our trade. It could well be woven into further most-favoured-nation negotiations and might break some new ground in services, for example, where the GATT is not yet endowed with that capacity. It has been argued by some that the fact Canada and the United States might begin to discuss some of these matters could be an incentive for other countries to say, "All right, we had better get going on the multilateral side." We should be doing both.

Mr. Chairman: Supposing you were told by your political masters, "We are not going to do anything special with regard to the United States, but break your back to make sure something happens under the GATT." This may be an unfair question, but could we stop the slippage?

Mr. Warren: Canada does not have enough leverage to make the GATT have a negotiation or not have a negotiation. We can combine with others, as we are combined at present with the United

States, the European Community and Japan. All those groups now have been brought to agree that there should be a negotiation, although there is still a fight about when the senior officials should be convened and all that. But the developing countries have said, "We do not like the look of that."

We have to continue to work as hard as we can to get that world trade negotiation going because we are a world trader. As a supplement to that and as something that can be made consistent with it, let us see what we can do where three quarters of our export trade is.

3 p.m.

Mr. Cordiano: There has been a great deal of preoccupation with the question of trade per se, largely dealing with trade with the United States. I have the sense that somehow we are overlooking the other important element in all this, the structural changes in the economy that have to be made. They are tough decisions.

That is nothing new. Other people have said it. We are not going to be able to solve all our problems with a free trade agreement with the United States, largely because we may not be in a position economically to do so. The economy is not structurally efficient in many ways and it is deficient in other ways. I do not know what changes have to be made. We would have to look at that in great detail.

On this whole question of trade, others such as the Canadian Manufacturers' Association have suggested it would give the impetus to the economy to change, that it would be inducing change in the economy if we were to negotiate a free trade deal with the United States.

I am not sure which of those avenues we would be better poised to take, whether we should enter into a free trade deal with the United States and therefore have this change come about in the economy, or make the changes in the economy and then go forward with a trade agreement with the United States and further trade throughout the world.

Mr. Warren: I do not know whether you were here when I opened my brief comments.

Mr. Cordiano: Perhaps I was late.

Mr. Warren: That is what I said by way of introduction to my comments about trade. What we have to do in our country is to make sure we become and remain competitive, dynamic, open to change, productive. Lots of things influence that, such as the investment climate, the taxation rules, the barriers to trade within Canada and the rigidities we have built in to much of our economic system. All those need to be addressed with respect to Canada's wealth-producing capacity in a world that is highly competitive.

Among those things, trade certainly is a key element. You



cannot get the kind of productivity and economies you need in many areas unless you have a market that is bigger than the fractured Canadian market offers. That is the export side of it.

Mr. Cordiano: I agree.

Mr. Warren: The import side of it helps to keep you competitive and helps to drive change. Perhaps it is sometimes in the nature of the Canadian system that the need to do something externally in one's own interest, but perhaps with the motivation being an external negotiation, is sometimes helpful in permitting political leaders to make changes that are otherwise necessary but are difficult decisions to take.

Mr. Cordiano: The only concern with free trade as far as Ontario is concerned is that in the long term what may occur is that we get industries where we are marginally producing raw materials. Other provinces may benefit and as far as Ontario is concerned we may not be able to compete in a large number of industries and may lose a large number of jobs. That may not be made up by those other resource-sector-related industries.

Mr. Warren: In recent years, the resource sector has tended to be a less promising sector than it was traditionally in Canada, which makes it more important that we have a competitive and productive manufacturing and service sector, where Ontario has the greatest endowment.

The question is whether you are going to create circumstances in Canada, in Ontario and in the world trading environment that lead the investor, the businessman and the leaders to take advantage of that resource and adapt it to the changing circumstances. As we have discussed earlier, that will certainly involve some changes in the allocation of resources and the disposition of manpower. To the extent it moves resources, capital and equipment to places that are going to be viable and competitive over the longer haul and with transitional assistance moves people away from things that are no longer going to be à la mode, that is what it is about.

Mr. Cordiano: We have been trying to come to terms with a concern about the transitional period. We have little information as to how that will impact on the economy. I am not so sure we will have any further information that will shed new light on that transitional period.

Mr. Warren: In your decision-making areas, you will gradually be able to gather where the longer transition and special measures may be needed. Then you will try to negotiate for that. To do it effectively, I think Ontario has to just get in there as part of the process, so that all the input the provincial authorities have that can be helpful to the federal negotiators, and indeed in some areas working right alongside them, is there, but it will be tailor-made.

Sometimes when I am reading the papers in Canada now, I perceive a view that we could all decide in advance what we are

going to do and what the results will be. In detail I do not think that is possible. What you can do, from the macroeconomic point of view, is decide you must keep up with change and remain competitive if you are going to create wealth and have good, healthy jobs. A decision is required. In my view, it should be a positive one, that access to the United States market on the secure basis you could get is one element in doing all that.

You should go into the negotiation knowing your strengths and weaknesses, try to build on your strengths, give the weaker fellow a chance to adapt, get the best possible transitional arrangement from the government, labour, capital and industry. When that is decided, you will find the marketplace will move quickly to adapt to the new situation. If there is any hope there will not be change, the marketplace does not do that.

Mr. Cordiano: However, if we take a cursory look at our trade with the United States, it is largely automobiles and raw materials or some unfinished goods. We are not strong in other areas, in highly manufactured goods. That is just from the numbers we have received in the past.

How are we going to get into some of these areas in which we would be producing high value-added goods? We are weak in those areas right now. We are not exporting a great deal of that kind of product to the United States. How do we go from such a position to one in which we are adding more jobs in those areas and industries, in this time when we are negotiating a free trade agreement?

Mr. Warren: Incidentally, I have been very careful not to talk necessarily about a free trade agreement. I have been talking about a negotiation in which we would try to find what is the widest practical liberalization of tariff and nontariff barriers that was viable between Canada and the United States.

What you have said is perfectly understandable in regard to a photograph of where one is, ignoring that day by day, hour by hour, the industrial picture in all these countries is changing, not as rapidly as it should in many cases, notably in Europe. However, if you simply say, "Here is what we have and change is going to involve difficulties for some of the existing industries; the other fellows might be better than we are," you are suggesting that somehow the status quo is viable, which I reject.

Mr. Cordiano: No, I am not suggesting--

Mr. Warren: You are saying what almost every protectionist has said before every negotiation in which we have ever been involved, and yet we go through them and liberalize, and the market adapts. I do not want to enter into a debate. However, I have great respect for the marketplace. When it knows the framework and rules, it will tend to find its leash.

I think Canada has a sufficient number of advantages in its people, resources and skills that are so importantly concentrated in Ontario, it can take a chance. From that base it will be able

to exploit this market, which is so large and prosperous, right next door to us.

Mr. Cordiano: I am not suggesting we should not liberalize trade or that we have to enter into a free trade agreement. I am not sure how far we should go in this negotiation. All I am suggesting is we definitely have to make some structural changes in our economy. They have not been made in the past. There has not been much movement to make them recently. I think we have to begin to concentrate on that to a greater extent than we ever imagined.

3:10 p.m.

Mr. Warren: I would agree that many of the changes that are necessary for Canada to remain and become even more competitive are overdue in our domestic economy, but I think trade can be helpful to you in facilitating those changes.

Mr. Morin-Strom: I would like to speak briefly about an issue you brought forward and Dr. Stephenson went on about as well, the issue of the status quo. I read the task force report very late, and you emphasize the serious adverse consequences of relying on a deteriorating status quo. Certainly, we recognize that there are lots of problems with our economy. The unemployment rates are a very serious problem in recent years and something has to be done to get the economy growing again.

I wonder whether the problems of the status quo are really problems of trade with the United States. If you look at the situation in regard to trade with the United States, it would appear that we are in a fairly favourable position and that this area has probably been one of the strengths of the economy in recent years. There has been quite an escalation in the amount of trade with the United States. Apparently, we are at a record surplus position in our balance of trade with the United States.

Given this, it would not seem that this is an area that should be attacked in order to get at the problems with our deteriorating economy. Do you think that by opening up the trade situation with the United States we may risk losing the favourable balance we currently have? Or do you expect that the result of a freer trade or an enhanced trade arrangement with the United States would be an even greater balance of trade with the United States?

Would the Americans allow us to move into a position that would be even more favourable than it already is?

Mr. Warren: Canada's surplus will be a variable in its trade with the United States. It depends, really, on where the two economies are and where the exchange rate happens to be in a given period. The United States dollar is declining in its international value. If the margin narrows between our dollar and the US dollar, it will be more difficult to achieve those surpluses in trade. I think Canada has to look at the balance of the current account as a whole--indeed, at the total balance of payments.



I do not think you should measure whether trade is good for your economy simply by whether you are in surplus. Your surplus is someone else's deficit, and that is the nature of trade.

Mr. Morin-Strom: Is it not an indication of relative competitive position? Our competitive position with the United States right now is fairly favourable and, therefore, the movement of goods tends to be from Canada to the United States overall, while our position with other nations is less favourable on the world scene.

Mr. Warren: Yes, and according to what is happening to the other elements of the payments, you might be in current account deficit or balance of payments deficit. The balance of payments balances with your capital flows and your services. It is a good indicator of how healthy your goods trade is at a given time, but it can be a period when the Americans are less competitive because their dollar is so high. If that changes, then your relative position will be different. Whatever the exchange rate relationship is, the question of whether you are producing competitively remains basically important.

Mr. Morin-Strom: But in regard to a negotiating position, is this the best time to open up with the United States the whole discussion of trade arrangements, while we are in a favourable trade position? Would we be in a stronger position at another point during the cycle of exchange rates and relative competitiveness?

Miss Stephenson: Would it not be a sign of magnanimity if we did this work?

Mr. Morin-Strom: I question what we would win in the negotiation.

Mr. Warren: I will have to try again. When you are striking a major trade agreement, you are creating the framework through which the multitude of business and trade decisions are taken. That has to be valid for a period of time. Trade is not good only for the days when you have a surplus; it is sometimes good for the days when you have a deficit. Perhaps you are exporting capital or someone else is exporting capital to you.

The question is your long-term opportunities to keep competitive and strong and meet imports head on. That is a question of efficiency in Canada relative to that of other countries. I do not think I would measure the desirability of entering into a trade arrangement simply by where the surplus happened to be at the time.

Ms. E. J. Smith: To some extent, my concern is with the same sort of thing. We seem to be looking only at our timetable for negotiating, thinking that if we do not do this we will continue to get slacker and weaker, whereas we must compete and get stronger, and be forced into the painful decisions that in the end will make us stronger. I could buy that if we did not look at the timetable of the United States. It might include the fact that

if we became strong and competitive, they might have to back off from whatever concessions they might have made.

I am expressing some concern that talking the way we are now about our improving or getting better--we talk too much as if we are the weak link that has to come up, instead of speaking like strong people and saying: "We are more or less equal. Let us talk now as equals, at least in the trade area, and see what can be worked out to our mutual benefit."

I have some concern that we look to be negotiating from weakness, when in fact we are a strong trading partner of the United States, stronger than Japan. We do not even have that recognition. Americans do not seem to understand that. Listening to the conversation here, I get concerned that we are creating our own bad image.

Mr. Warren: I would be very much inclined to agree with the latter part of your statement. We should certainly not approach the Americans with any sense of weakness in negotiations, but they do have the vastness of their market.

Ms. E. J. Smith: However, we are a pretty good trading partner.

Mr. Warren: That is right, but we need to be as secure as we can against their whiplash when our competition needs to bite, and we need a treaty to help us do that. The Canadian economy, which is a smaller economy, probably needs the exposure of import competition to move it in this healthy way. We can hold our own with them. We would be doing these things in our own interest.

Ms. E. J. Smith: I am only a substitute on this committee, so I do not have the background of the discussion some of the others have been exposed to. I would be interested to know the background under which our auto trade treaty was negotiated. It seems to be one that is very beneficial and recognizes our strength as a market and our importance. I have a sense it was made in a different mental climate.

3:20 p.m.

Mr. Warren: Other witnesses would be more expert than I in remembering all that. I was part of the negotiations. Essentially, we were trying to help our--there was a certain uniqueness about that industry. Most of the main companies had the same ownership on the two sides of the border. We were trying to get a bigger piece of the action. We had devised some schemes by which we would rebate the tariff on some of the inputs that were needed by automotive manufacturers relative to their export capacity in earning a larger share of the North American market relative to the two populations, to the size of the two economies.

That ran into the problem of US countervail because it would have been regarded under their law as a bounty or a grant, as I recall, and that scheme might have been frustrated. The thing got

pretty tense as we tried to evolve ways to encourage our industry to a greater production without running afoul of action which would offset whatever benefits we were trying to give to the industry.

We were faced with the question of what to do. Should we try to create an automotive industry all by itself in Canada to serve this market--I have forgotten what we were at that time, perhaps 16 million people--put on restrictions against the United States and try to go on our own way, or should we try to work out some arrangement? The Americans had come to the view that they did not want us to go off and produce the Canadian motor car, called the Eskimo or whatever we might have decided to call it.

There became a mutuality of interest in seeing that we did not go to war about the automotive trade between our two countries, which had to recognize Canada's aspirations to have a bigger part of the pie. So we negotiated a free trade arrangement, conditional free trade, which has stood the test of time but which has had problems associated with it because some of the safeguards we built in were called temporary and the temporary period has completed itself.

Ms. E. J. Smith: Do we not need some of that sense of toughness in our present discussions--the kind of toughness to make them think maybe we will go and create our Eskimo, and they really want that market, to counterbalance the other idea of just how small we are and how much we need that market, which is what I hear so much?

Mr. Warren: This market is not inconsequential to the United States.

Ms. E. J. Smith: My point is we do not seem to be emphasizing that. That is my problem.

Mr. Warren: That is understood. I do not think you have said anything I disagree with. We are very consequential to the Americans, not only in terms of the amount of US exports but as a place for US investment. We are also a very important ally in multilateral trade in getting things going with the rest of the world. The Americans occasionally need somebody who agrees with them on something while fighting them on something else. I am one of the people who is not afraid to go to the negotiating table with them.

Miss Stephenson: I have some real concern about the idea that we are going into this from a position of weakness. I do not have any such sensation at all.

Mr. Cordiano: We have given away what the Americans conceive to be some of our nastiest policies. Their concept was that the national energy program was abhorrent to them and the Foreign Investment Review Agency, etc. We have given quite a bit away already without getting anything in return in the last year. You have to agree with that. To a certain extent, you will agree with that.



Miss Stephenson: There could be a fairly significant debate about that. My concern is whether at present we are going to begin to discuss the liberalization--and that is the right word, even though it bothers me to use it--of trade rather than free trade.

Mr. Cordiano: How do you spell that?

Miss Stephenson: With a very small "l." It seems to me the picture we are dispensing from this room, and some of those who come before us helped us to dispense it, is that we are talking about pulling down a shade one night and suddenly we are going to move from the current situation to a totally free trade situation with no transition period, no mechanisms at all for attempting to adjust to what we are trying to do and no period of time in which to do it. That is not what we are talking about.

What we should be trying to do is to let the public out there know that we are talking about the possibility of developing some kind of mechanism within a framework that will attempt to assist us to do what is good for us, while acknowledging that we have to do some things that are good for the United States as well. This is only a part of our whole trading program, and we have to develop the strength to do that in a more appropriate way.

Jake says we have done it well, and we have done it well from time to time. There were a couple of times in the Tokyo round when we did not do it so well, but that is all right.

Mr. Warren: Tell me about that, will you?

Miss Stephenson: It was not you; it was the fact that we had weak input in a couple of places.

None the less, we need to be able to do that in the multilateral negotiations as well. I just wish we could dispel this absolutely terrifying image that we are somehow going to move overnight from the comfortable status of a relatively risk-free situation in which we find ourselves at the moment--because that is what we like as Canadians--to something that is full of a whole lot of risks and does not give us any kind of security. That is not what anybody is talking about, it seems to me, in this whole area.

Ms. E. J. Smith: I did not think I was suggesting that.

Miss Stephenson: No, you were not; but that reflects the position of negotiating from a position of weakness. I do not think we are weak; I think we are strong. But we should be strong enough to tell them exactly what we want and exactly what we want in the way of a mechanism to develop that kind of framework for negotiations.

I have a feeling that it may take us 15 years to do it. Maybe I am a pessimist; I do not know. But I think it is worth while starting because if we start, maybe it will slow down some of these countervails or some of these actions the United States is beginning to take in a number of areas.

I worry. Right now I hear the northeastern states are beginning to kick up another stink about Maritime imports--

Mr. Warren: Again?

Miss Stephenson: Yes; this morning. We are a part of Canada, and we know we have a huge responsibility. I am glad you emphasized that today, Mr. Warren, because we do not do that often enough. We do have a major responsibility for ourselves as well, and we have to make sure we do this well.

Mr. Warren: You certainly do not go into a trade negotiation to give things away. Sometimes you negotiate things away that you would wish to negotiate in your own interest. I have simply been arguing that secure access to the US market in an enhanced way can be very helpful to us. If the Americans are interested in the negotiation, this is a chance to go to the table and see if we can strike a deal. When you strike a deal, it is between equals.

Mr. Cordiano: You certainly do not run in the corner and hide in utter fear. You have to negotiate no matter what happens. We have to negotiate something from them.

Mr. Chairman: This raises a very basic question. I have asked other witnesses, but I would like to have your answer as a negotiator.

An American government official privately said to me: "Why are you discussing whether to do it? Why do you not make the basic proposal, get into the negotiations and see where they go? If you do not like them, you can always back out. Then at least you know what happened." That raises the question, why do not they do that to us? It also raises the basic question of whether we would be at a psychological disadvantage if we made a proposal.

It has been suggested that the best way to propose this is to start with almost blanket free trade, and then you can each back away from it in areas where you feel you need to back away, knowing you have a bottom line of certain things you are never going to give up. Professor Lipsey talked that way.

Would we be at a real disadvantage or would they be at a real disadvantage? It sounds as if we are almost in a cat-and-mouse game as to who is going to put the proposal out first.

Mr. Warren: I do not see it that way myself. Canadians, out of their history or elements of some Canadian thinking, are essentially suspicious and fearful of the United States, its domination, its influence on our culture and those sorts of things. The Americans, I believe, have decided, probably very wisely, that if Canada wants to negotiate, they wish to be responsive.

America could simply to move in on its own, irrespective of the Canadian timetable, and say: "It is time Canada negotiated with the United States. We have some things we want you to do.

Come on down and we will negotiate." If that were to happen, there would be outrage in the Canadian media. Some of that would be reflected in parliamentary positions in the Legislatures and in the Commons.

3:30 p.m.

The Americans have been very careful this time to allow Canadians to come to whatever consensus we are going to come to: to negotiate or not to negotiate, what our starting points will be, what our mechanisms will be, what kinds of things we need to take into account in a country as diverse as ours. However, the signals, as I understand them, are: "If you do not make up your minds, come and tell us what you would like to try, and we will try to be responsive. But there is a timetable."

Between neighbours such as the United States and Canada, who bites the bullet first is not that critical, except that if the Americans tried to bite the bullet first, it would give rise to so much concern in Canada that we are being taken over, we probably would never get a negotiation going. I think they are being very sensitive to Canadian sensibilities.

Mr. Chairman: One of the reasons that sort of reaction could occur might well be that if a proposal were put on the table by the United States, it might not be done as delicately as we might wish. There might be something said or done that we would consider to be ignorance of Canadian affairs. Is that going to happen in any event? I have had answers from other witnesses that the reason we should go first is to get their attention, because they are not paying much attention to this issue anyway and it does not matter that much one way or the other.

Mr. Warren: I have never been in a negotiating room with the Americans where it did not matter one way or the other. They are very serious negotiators. Like ourselves, we will know what they are doing when they do it. They have already said, "Let us have a look at the sectoral approach." Now they are saying, "If you would like to come and chat with us, if you would like to make the call, we will see how responsive we can be now." I do not know how that is going to test out because of the growth of protectionism in the United States.

Mr. Chairman: If they are that serious in dealing with us, why can they not carefully set out a plan so they are not going to upset our nationalistic--

Miss Stephenson: Do not be so paranoid about making the first move. For heaven's sake, if you have a disagreement in your marriage, you do not say, "My wife has to make the first move," do you?

Interjection.

Miss Stephenson: You do? If you do, then watch out, buster, because you are going to be in trouble.

Surely we are big and strong enough and have enough sense of our own destiny that we are not afraid to make the first move. For



God's sake, let us stop being so fearful of them. They are not monsters; they do not eat people up.

Mr. Chairman: They are apparently paranoid about us too.

Miss Stephenson: Oh, they are; they may be from time to time, and we are certainly paranoid about them. None the less, I cannot see why we are so absolutely paralysed by this business: "Should we make the first move? Does it not look as though we are coming from a position of weakness if we say, 'Let us talk first'?"

Mr. Warren: Formally, the two sides will do it together. Meetings are scheduled that flow from the Quebec summit, and if everything is ready-

Miss Stephenson: The request was made that we let them know what we want.

Mr. Knight: Bette, that is always the way it is before a marriage.

Miss Stephenson: In some wise circumstances, it is that way after a marriage as well. I would hope that we would all understand that. We are not talking about a marriage; we are talking about a relationship that is not necessarily going to be conjugal.

Mr. Knight: Although some people here have said that may very well be the result.

Mr. Warren: Perhaps we are trying to be too complex about the thing.

Miss Stephenson: We are paranoid about that too.

Mr. Warren: If you were in the United States Trade Representative's office in Washington, you would be aware that the government of Canada has officially announced an extensive consultative process involving all the interest groups in Canada--the provinces--to discover what sort of option, if any, should be pursued and that Canada is in the process of trying to discover whether such a consensus exists.

When that decision is taken, the two sides presumably will meet and elaborate something, but I do not think that who goes first is other than sensible at this stage. Canadians are trying to find out what they want to do, and you have to give the Canadians a little time, but if they take too long, they may find the door is not as open as it was to commence a process. I am thinking of a process.

Mr. Chairman: You are basically telling us that down the road, when the nitty-gritty is being worked out, that will not matter?

Mr. Warren: That is right.

Mr. Chairman: That is good to know.

Mr. McFadden: I have one final question to follow up on what the chairman raised here about who starts, what we do and all these things.

From the witnesses, from things I have read and from people I have spoken to, I detect quite a difference of opinion on this between the administration and Congress. While the administration itself is probably quite happy to start discussions and it would fit with the Reagan administration's agenda for liberalizing trade, Congress may not welcome it particularly, or be behind it at all, for that matter. There is even some indication that Canada's traditional allies in Congress are moving towards protectionism for various reasons that could be prejudicial to Canada's trading interests with the United States.

In your observations, do you detect that difference between Congress and the administration? Second, even in starting discussions and moving along the road, do you think that could imperil our ability in the end to conclude anything, or might we find ourselves in the position where it could take a very long time, just because of the dynamics of the internal politics in the United States?

Mr. Warren: The congressional leadership is now a rather diffuse thing and is under much more protectionist influence than in earlier times, which I guess is understandable if you are running a deficit like the United States is running, with their dollar at the level it has arrived at.

The process of major trade negotiation in the United States--I am not sure whether this is even prescribed--usually involves very close liaison with the Congress and Senate. Bob Strauss had to take the results of the Tokyo round through on what is called the fast track; essentially, he had to have his congressional and Senate people lined up as he went along.

The fast track means the negotiated package goes through the committees, the Senate and the House of Representatives as a package; you cannot get all those amendments, where they do the log rolling between the different constituencies, that are so multitudinous in the US Congress.

In my view, it would be the essence of a negotiation that we would want to have the Congress working closely with the American negotiating team so that we would face the Strauss kind of scenario, in which by the time you had struck a deal, after whatever period of negotiation was required, you would know it was going to go through, and not what we had with the fisheries treaty, where in good faith, I guess, people struck a deal but a misjudgement was made about whether it would wash in the Senate.

Ms. E. J. Smith: Mr. Chairman, we have just had something handed out that hits exactly the kind of nerve I was addressing in the beginning. I realize it comes from a different bank, but this is the kind of headline that bugs me, as a politician: "Trade Liberalization between Canada and the United States: Do We Have a Choice?" The implied answer is no. That is exactly what I mean when I say we seem to go in looking weak.

I would like to see something quite different: What is to be gained and what is to be given? I would like to hear something that implies we are not the underdogs that have to dance to their tune. That just hit me as an illustration of what I was trying to say.

Mr. Warren: I can see you dancing to a tune, but not to anybody else's.

Mr. Chairman: The banks have always told us what to do, have they not?

Mr. Warren: The banks are at your service.

Mr. Chairman: I have one other area I would like to probe; it concerns the sectoral area. You and other witnesses have indicated it has been tried and does not seem to be working; yet once you get going in any free trade negotiations, do you not come down to sectoral discussions or exemptions or whatever? Why is it being abandoned so quickly?

3:40 p.m.

Mr. Warren: It is not automatic to find a balance within a very narrow spectrum of negotiation. If there is more at play, if there is something that influences the supplier's or producer's cost because some reduction comes from lowering the tariff or nontariff barrier that makes it more worth while, you do not have enough flexibility, in my view, just to pull out a sector. The automotive one was an exception because there is a unique industrial structure between the two countries.

I do not think there is enough overall gain to either of the economies to permit enough political consensus to be built for a successful negotiation if you have only one or two little sectors; it does not give you the macrobenefits of trade liberalization. It is hard to find a balance, but you are right in saying that if you do have the whole recipe, subject to your exceptions, sitting in front of you to play with, eventually you have to work in co-operation with your industry; and if an industry faces its own possible isolation as the sector chosen, it may say, "We do not see the advantage of it."

If a negotiation is broader and there is a shared adjustment, you have greater flexibility in striking a deal. For us to get the benefits we need from the point of view of industrial policy and competitiveness, we need the widest practicable access, as I have said. You will not get that just in a sector; you will not get the political support for it in Congress.

Mr. Chairman: Your answer is based on the psychology of where you start.

Mr. Warren: If you have followed the thing, as no doubt many of you have, and as I have read the newspapers, Canada started out with four or five things it would like, such as urban transportation, heavy generating equipment and steel, and the Americans came back with petrochemicals. By the time governments



changed and there was the re-election in the United States, I think they ended up with agricultural inputs, which were practically free trade already. I think the testing there did not suggest there was enough to mobilize consensus for a meaningful negotiation.

Miss Stephenson: Did not the simple approach begin with the industrial sectors themselves that felt their ox was being gored and that Canada needed to talk to the United States on a sectoral basis? Even they have changed their minds about the sectoral approach.

Mr. Warren: Some were motivated a bit by the fact that there was a lot of new competition coming our way from southeast Asia, Brazil, Mexico and elsewhere, and if we could get a deal with the United States we might be able to save ourselves at the expense of the Third World. In practice, liberalization has to take account of the broader interest as well as the narrow sectoral interest.

Mr. Chairman: Thank you very much. Your approach is very practical and we have benefited from it very much.

Mr. Warren: I appreciate the chance. I wish it were easier to answer in a simple and straightforward way, the way Dr. Stephenson does with some of these problems, but they are quite complex. In my view, they will not be resolved in advance of negotiation, and some of them have to find their place in a negotiation. The strengths will be shown at the table, madam. One of the strengths that Canadian negotiation always has to have is the courage to walk away if the deal is not a fair deal. If you go into a negotiation and you have that feeling, that willingness, and the other side recognizes it, as often as not you can make a deal.

Ms. E. J. Smith: If you see Dr. Neufeld over a cocktail or a coffee, you can tell him I would like to say, "What are our choices?"

Mr. Warren: I will go better; I will tell Rowland Frazee.

Mr. Chairman: The handouts we have just received, the first from Dr. Neufeld, are a result of the fact that we have invited the Canadian Bankers' Association to give us a submission and they are still negotiating among themselves. I think one bank in particular is anxious that we get its views so we have them in case we get pushed the other way some time before the banks get to it.

Mr. Warren: I think earlier in the day you received a copy of the Bank of Montreal submission.

Mr. Chairman: Did we? Yes. We will put that on top. The other is the Canadian Horticultural Council.

Miss Stephenson: It is the Canadian Federation of Agriculture.

Mr. Chairman: It has been distributed to us courtesy of Jim McGuigan.

The committee adjourned at 3:45 p.m.



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Public

SELECT COMMITTEE ON ECONOMIC AFFAIRS  
ONTARIO TRADE REVIEW  
MONDAY, AUGUST 26, 1985  
Morning sitting





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From the United Electrical, Radio and Machine Workers of Canada:

Barry, D., National President

Turk, J., Research Director

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, August 26, 1985

The committee met at 10:09 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: This morning we have with us representatives of the United Electrical, Radio and Machine Workers of Canada.

Sitting down right now is Dick Barry, the national president, who has come here this morning through a horrendous storm from New Hamburg, Ontario. I was in the same storm, and it was a feat to get to the city today. Meanwhile, the Toronto radio stations kept telling us it was a nice day, and that was the only thing that kept us going.

With him is James Turk, the research director of the same union. They have a presentation, which is being handed out now and which is quite onerous.

Mr. Turk has indicated to me that they would prefer to proceed with their presentation with the minimum of interruptions and would be available for questions thereafter.

UNITED ELECTRICAL, RADIO AND MACHINE WORKERS OF CANADA

Mr. Barry: Mr. Chairman, members of the committee, we would prefer to read our brief and then answer the questions that follow.

"I was brought up...to respect free trade not only as an economic doctrine which a rational and instructed person could not doubt, but almost as a part of the moral law. I regarded ordinary departures from it as being at the same time an imbecility and an outrage. I thought England's unshakable free trade convictions, maintained for nearly a hundred years, to be both the explanation before man and the justification before Heaven of her economic superiority...previously, I was writing that free trade was based on fundamental truths 'which, stated with their due qualifications, no one can dispute who is capable of understanding the meaning of the words.'"

John Maynard Keynes, the most famous British economist of the 20th century, made these comments in a landmark article published in 1933 in which he announced a change in view and advocated policies based on the need for greater national self-sufficiency.

In the intervening 52 years, few of his fellow economists have learned the same lesson. One need only look at the position papers on trade commissioned for the recent economic summit or the

testimony of the majority of economists before the recent federal Special Joint Committee of Parliament on Canada's International Relations to see the prevalence of the free trade ideology among Canadian economists. For them, the value of free trade is a vital article of faith.

This viewpoint is reflected in the major trade papers released by both the previous Liberal government and the present Conservative government. The Liberals' trade paper of 1982 and the Conservative government's discussion paper of 1985 assume the desirability of increasing Canada's export orientation, and only ask how we can do that. Given that goal, freer trade with the United States appears to be a necessary element.

The primary issue is not free trade, but what kind of development strategy is adopted for building the Canadian economy. Trade policy follows from that. By assuming the Canadian economy should be built through export-oriented development, the Canadian government has already committed itself to some version of free trade.

While the widespread support for export-oriented development by governments and corporations has a long history, its more immediate causes can be traced to the massive worldwide corporate reorganization and rationalization which have been speeded up by the persistent economic crisis of the past 10 years.

With more and more of the capitalist world's productive capacity dominated by large, transnational corporations and with the growth of non-US-controlled transnational corporations, competitive pressures among transnationals have intensified. To improve their competitive advantage, corporations have put greater emphasis on a number of activities begun well before the crisis, but which have become more important in the light of the economic constraints imposed on corporations by the crisis.

One aspect is corporate reorganization on an international basis--to extract whatever advantage they can from various countries by playing governments off against each other and by playing workers of one country off against their fellow workers in other countries. Part of this reorganization has meant a shift from the traditional branch plant operation that supplied the domestic market of the host country to a global strategy where foreign plants supply a much more limited range of products for the global market.

Governments, such as Canada's, have been pressed by the transnationals to develop economic strategies compatible with the corporate thrust. This means abandonment of economic policy based on the priority of the domestic economy in favour of a policy of export-oriented development. Coupled with this has been intense pressure on governments to eliminate restrictions on the mobility of capital, for example, trade restrictions, currency controls, plant-closing legislation, so there are as few impediments as possible to the transnationals' global reorganization.

Governments have been pressed by business to create conditions in which wages, labour laws, working conditions,



corporate subsidies, etc., are internationally competitive, that is, most favourable to corporate interests. The corporate campaign has been so successful that the need to be internationally competitive now seems to rank with the need to eat, sleep and exercise. It was not so long ago Canadians took pride in the fact that we had one of the highest standards of living in the world. Now that same fact has been converted into a curse, a fact that means we are not as internationally competitive as countries whose workers have a lower standard of living.

One consequence of the drive towards international competitiveness is that every gain won by workers in the last 100 years is under attack. For example, the recent brief of the Canadian Manufacturers' Association on the future of manufacturing in Canada argued for a return to individual responsibility for providing income security throughout one's life, the right for workers and management to agree to opt out of the protection of existing labour legislation in order to facilitate flexibility--minimum wages, vacations, limits on the length of the work week, rights to notice of layoff and health and safety standards are still impediments to the CMA--job allocation based on qualifications and performance rather than on seniority and no further reduction in the work week, even with a reduction in pay.

The Mulroney government, at the urging of business interests, has indicated its plan to eliminate universality of social programs, although it had to backtrack on its initial changes to old age security and qualify its statements about universality. The issue is far from dead.

The Minister of Employment and Immigration, Flora MacDonald, has changed regulations to cut unemployment insurance benefits by treating severance pay and pensions as earnings that take away benefit entitlements. The federal government has already signalled that it plans further significant cutbacks to the unemployment insurance program. Employers in collective bargaining are trying to roll back wages, eliminate hard-won work rules, introduce two-tier wage levels and restrict benefit packages. Federal and provincial governments are cutting back on essential consumer and worker protection under the banner of deregulation.

All of these actions are being done to further Canada's international competitiveness. All are based on the contradictory logic that we must give up what we have so we can have more. In the end, all these actions have one objective, namely, to shift more resources, power and rights to capital at the expense of workers. This is what international competitiveness is all about, a reverse auction in which workers are being asked to compete to see who can give away the most in order to attract business.

It is in this context that the discussion of free trade in Canada must take place. Free trade follows from a policy of export-oriented development and is part and parcel of attempts to shift workers' limited power and control increasingly to capital.

Advocates of free trade with the United States have a number of practical arguments but usually begin by citing the frequently stated belief by economists that the development of the world

trading system has been an essential factor in the growth of real incomes. Evidence for this fact is rarely cited and hard to come by.

The actual case for free trade for Canada is usually based on one or more of the following points:

Trade is especially important to Canada. The opening of the federal government's recent discussion paper on trade is typical. It says: "Canada is a trading nation. International trade is a large and rapidly growing component of our national income, close to 30 per cent in 1983. More than three million jobs depend on exports. In the manufacturing sector alone, upwards of 1.2 million persons are employed directly or indirectly in export activity. There is hardly a sector or region of Canada that is not affected by Canada's international trade performance."

Canadian tariffs, the special taxes placed on imported goods, have been claimed to depress incomes and increase consumer costs. In one of the early estimates, economist J. H. Young claimed that the cost of the Canadian tariff in 1954 was equivalent to about four per cent of the gross national product. Trade specialists Ronald and Paul Wonnacott in a much more sophisticated study argued that the Canadian tariff imposed a cost equal to 4.5 per cent of the GNP through lower wages and higher costs.

In a later study, Ronald Wonnacott argued that the combined effect of the American and Canadian tariffs in 1974 cost Canada 8.2 per cent of GNP and suggested that general free trade would raise real incomes in Canada by as much as 10 to 15 per cent.

In a recently published Ontario Economic Council study, which is the most sophisticated to date, economists Richard Harris and David Cox estimate that general free trade would result in a real income gain for Canadians of \$13.2 billion or about 8.6 per cent of GNP in 1976.

The key to trade policy is the United States, unquestionably Canada's most important trading partner. In 1984, 72 per cent of Canada's imports were from the United States and 76 per cent of Canada's exports were to the United States. The American market offers the best hope of economic growth for Canada. It is 10 times the size of the Canadian market. Canada is already well established in it.

10:20 a.m.

Canada's next most important trading partner is Japan, to which we export one fifteenth the amount we export to the United States. Proximity, mobility of capital and similar business and economic structures are also cited as reasons why the American market is particularly appropriate for Canada.

Furthermore, by rationalizing production for a larger North American market, production in Canada could become more specialized, with longer production runs. Canadian production would become more internationally competitive, expanding the

opportunities for markets elsewhere in the world. In addition, there would be a substantial new investment of capital in Canada to finance this reorganization.

If Canada does not move towards a free trade agreement with the United States, rising protectionist sentiment in the United States, partially as a result of the growing American trade deficit, threatens Canada's ability to keep and expand its existing markets in the United States. Furthermore, "buy America" programs, left unchecked, will encourage the outflow of capital from Canada as corporations seek to get around trade barriers by locating in the country with the largest market.

I will take a moment to read you one footnote. "Canada's fear of losing its special relationship with a dominant power has helped fuel every surge of free trade sentiment since 1846 when Britain revoked the corn laws which gave preference to Canadian wheat. In this instance, leading Montreal merchants pressed for Canada's annexation to the United States."

Complete free trade with the US is not such a big step because by 1987, when the latest round of tariff cuts are fully in place, 95 per cent of Canadian industrial exports to the US will be subject to tariffs of five per cent or less and 80 per cent will be duty free, and 81 per cent of US industrial exports to Canada will be subject to tariffs of five per cent or less and 65 per cent will be duty free.

While the problems arising from the nature of Canada's present economy and its close ties to the United States must be recognized and dealt with by opponents of free trade, as will be done later in this submission, there are many serious questions about the arguments in favour of free trade.

#### 1. Has economic wellbeing been achieved through trade?

The "fact" that the international trading system has increased real incomes and has been essential to worldwide prosperity is not as well established as most economists claim. In the previously mentioned Ontario Economic Council study which argues for free trade, Harris and Cox begin with an admission that the economists' belief in the value of free trade is not based on evidence.

"...the embarrassing fact is that the importance attached to free trade by economists is often hammered into them by years of training based on a tradition of analysing the inherent virtues of resource allocation by the unfettered hand of the free market....This 'belief' translates into the assertion that it is 'self-evident' or 'well established' that free trade is a major source of economic growth and economic welfare. This claim is made by most economists, certainly by most academic economists responsible for teaching in universities. One of the points we wish to make...is that by the conventional standards of evidence in economics, the claim is not well founded....What little work has been done on the subject suggests that the benefits from free trade are rather negligible in quantitative terms."



## 2. Has Canada's economy suffered as a result of tariffs?

The studies purporting to show the cost of tariffs for Canada are based on questionable assumptions. Although they cite quite specific cost figures, these figures are derived from economic models that bear little relation to reality. While the models are presented in such an obscure mathematical manner that they are unintelligible to anyone but another economist, they are usually accompanied by a qualification somewhere in the text. These cautionary statements are worthy of note. The Harris and Cox study has this warning buried on pages 92 and 93:

"The results reported are for the Canadian economy in the mid-1970s; this means that the policy experiments are for the technology and trade barriers that were in place at that time. Since 1976 there have been some economic changes in the world economy. These include the second oil price shock, the accelerating inflation and subsequent recession and deceleration of inflation in the world economy, the strong shift to protectionism and rapid technological change occurring in many industries due to the advance of microelectronics. Many of these changes have been so dramatic that the results obtained on various policy experiments should be interpreted as applying to the current situation with considerable caution...."

This qualification by no means identifies all of the limitations of their model. Yet when conclusions are reported by the original authors or cited by others, the findings are reported with no reference to the qualifications, despite the fact that the qualifications call into serious question the reliability and validity of the results.

We are currently in the position where we have a good deal of very sophisticated economic analysis in favour of free trade. While its design elegance and mathematical rigour is to be admired, it bears so little relation to complex reality that it cannot be but misleading.

Further, because its methodology and terminology are so difficult for most, few dare challenge the findings. If anything, the very impenetrability of the methodology causes many readers to assume that anything so complicated must be right. As we will argue subsequently, our understanding of the free trade question can be better achieved by a little common sense, logic and analysis than by uncritical acceptance of projections based on obscure and incomplete economic models.

## 3. Does free trade increase efficiency and productivity?

Contrary to what many economists project as their models, there is considerable evidence that freer trade does not result in greater efficiency and productivity.

Examining the case of British entry into the European Economic Community, Wilkinson concludes that Britain's experience has not lived up to the economic predictions promised by those who favoured entry into the EEC. Schwindt pointed out that the experience of European economic integration does not support the

assumptions of free trade theorists that elimination of tariffs automatically increases competition and has a positive effect on economies at or below the plant level.

Clarkson cites the case of Canada's farm equipment sector, which has had no safeguards against American entry. "Canada's farm machinery market benefits from no safeguards and is completely open to American imports....Canada's lack of protection since 1944 has done nothing to close the productivity gap, increase research and development, or reduce foreign ownership."

4. Are there benefits from specialization and economies of scale?

Most of the advantage from free trade, according to free trade advocates, is derived from the specialization and gain in economies of scale that free trade will allow. Instead of producing a variety of products for the small Canadian market, Canadian industry can concentrate in areas in which Canada has a natural advantage and produce longer production runs of a more limited range of products.

Little evidence is offered to support the claim that specialization and longer production runs will provide the benefits assumed by free trade supporters.

First, it is not enough to note that a plant produces many different products; one must also look to see if that plant has significant production runs for its best-selling products but low-volume production for the miscellaneous other products which it sells. It may well be that the economies of scale are already exploited for a number of major products in Canada.

Second, some of the inefficiency of multiproduct production may have been due to poor plant organization. Better scheduling of production can often reduce the amount of downtime due to changeovers.

More importantly, with the adaptability of microelectronic technology, long production runs may no longer be as necessary for efficient production. With technology dedicated to one function, the costs of multiproduct production were heightened both because of the cost of multiple machine tools and because of the downtime during changeovers. With multifunction microelectronic technology, these problems can be significantly eliminated.

Finally, there is a growing shift to more numerous but smaller plants. This is due to a number of factors: increased transportation costs where there is one central plant; ability to monitor more decentralized production as a result of advances in computer and telecommunication technologies; awareness that centralized production makes the corporation more vulnerable in the event of strikes and other forms of work stoppages.

5. Is Canada's substantial trade surplus a basis on which to build a future economy?

Discussion of Canada as a trading nation with its subsequent

level of exports and its surplus of exports over imports amounting to \$13.8 billion in 1984, often fails to note the wide variation among categories of goods.

As shown in table 1 following, Canada has a tremendous surplus in trade in resources and partially fabricated materials and a massive deficit in manufactured end products. Since manufactured goods provide more jobs and a more stable economic base, Canada's overall trade surplus hides a very heavy reliance on imported manufactured goods.

10:30 a.m.

Far from the Canadian trade picture showing a healthy economy, it is a sign of a stunted and dependent economy that needs to be fundamentally changed, not have the present arrangements strengthened. Canada's heavy reliance on the resource sectors and its relatively poor position in manufacturing are unique among industrialized nations. Among such nations, Canada's trade profile comes closest to resembling that of exploited and dependent Third World countries.

6. Will a free trade agreement eliminate Canada's vulnerability to protectionist sentiment in the United States?

Concern about protectionism in the United States cutting off much of the market for Canadian exports is well founded. What is rarely noted by advocates of free trade is that this threat will become even greater, not less, if Canada were to have a free trade relationship with the United States through which Canadian production would be rationalized on a North American basis.

If the Canadian economy were further integrated into the American economy, an ending of a US-Canada free trade arrangement would leave Canada far fewer options than it has at present. As the junior partner in such an arrangement, the impact of a reversal of free trade would have graver consequences for Canada than for the US.

It should be clear that the signing of a comprehensive free trade pact with the United States now would be no guarantee against protectionist sentiment cutting off American markets in the future.

The impermanence of American commitments in this area can be seen in the case of lumber, one of the more visible areas of dispute at the moment. What is lost in most reports on this dispute is that there already is US-Canadian free trade in lumber. Because of the decline in the value of the Canadian dollar, the Americans are trying to find any excuse whatsoever to renege on the deal.

A Canada-US free trade agreement would be no shield against US protectionism. For Canada, such an agreement would magnify the threat, not eliminate it.

7. Has the elimination of significant tariffs for most goods brought Canada and the United States close to free trade anyway?



Absolutely not. Those trying to sell free trade use the very misleading argument that since the overwhelming majority of Canadian goods enter the US with little or no duty and the great majority of American goods enter Canada with little or no duty, it is only a small step to complete free trade.

What free trade entails is not just an elimination of tariffs but also the elimination of the much more numerous and important nontariff barriers. These are government policies designed to discourage or block imports. Examples include quotas on imports, government purchasing that favours domestic goods, subsidies to encourage import substitution or to subsidize exports, packaging requirements that favour domestic producers, agricultural subsidies and marketing arrangements, and restrictive customs policies.

The push for free trade is really an attempt to remove nontariff barriers. The current tariff situation is mostly a minor point, especially at a time when the currency differential is so great and so volatile.

Canada and the United States are not near to free trade, which is why a free trade agreement would mean such a dramatic change. The argument by free trade advocates that the elimination of most tariffs has brought Canada and the United States to the threshold of free trade is a dangerous misrepresentation of fact.

The reality of free trade with the United States would likely be an economic tragedy for Canadians and would most certainly have grave political consequences despite the faith of the economists, the rosy pictures coming from sophisticated but unrealistic computer simulations and the rhetoric of free-trade-oriented politicians and media people.

Because of the limitations of the economists' computer models, it is impossible to have a precise picture of Canada's economy after free trade. One can look only at the logic of the argument for each side and make a reasoned guess as to the effects.

As has been noted previously, supporters of free trade hold out for the argument that free trade with the United States will lead to production of a narrow range of goods, goods for which Canada has a comparative advantage, but these goods will be produced for the huge North American market. Canadian producers will become more efficient as a result of longer production runs and less diversification. This will produce increased capital investment, more jobs and more job security, and a higher standard of living.

As a dream, this is attractive. As a realistic prediction of Canada's future under free trade, it is a delusion.

As free trade advocates acknowledge, certain whole industries would suffer significant decline. The industries usually identified include clothing, knitting, textiles, leather goods, tobacco, food and beverage, furniture and machinery. These industries currently employ some 533,000 Canadians, 232,000 in Ontario alone.

These losers will supposedly be offset by other industries that grow under free trade. Transportation equipment is the most frequently cited example. Here is the first major weakness in the free trade argument. If one assumes that Canada is a fully developed economy with domestic control of most production, the free trade argument may have some validity. But Canada is not. It has the highest percentage of foreign ownership of industry in the industrialized world. The bulk of foreign controlled industry is owned in the United States so that the parent corporation has reasonable proximity to the Canadian market.

The implications are clear. Faced with free trade between Canada and the United States, it is reasonable to expect that corporations would examine the feasibility of supplying the Canadian market from the United States. While a number of different factors enter into that decision for each specific industry, it is reasonable to assume that the relocation of production to the United States becomes a much more attractive option under free trade.

In a major Financial Post story on free trade, a senior executive with a major US-based office equipment supplier was asked how his firm might respond to the liberalization of trade relations between Canada and the United States. His reply was curt and unambiguous. "The answer is very simple," he said. "If there were free trade, there would be less investment. The company would seek to supply its present Canadian customers from its US plants."

David Hay, chairman of the Rubber Association of Canada and president of Trent Rubber Services argued, "If you freed it up instantly, you would wipe out 80 per cent of the Canadian tire industry. Someone sitting in Akron could decide, 'Our plant in Akron or Cleveland can handle that market up there one week out of four.'"

In the electrical industry, free trade probably would mean the elimination of the majority of the 11,000 jobs in Canada in the appliance industry and the loss of up to 35,000 additional jobs in other electrical sectors as free trade facilitates the global rationalization in the electrical industry that has already cost Canada thousands of jobs in the last 10 years.

Branch plants which duplicated American production facilities were established largely in response to Canadian tariffs. The removal of these tariffs, as well as nontariff barriers, encourages a rethinking of that decision. What reasons are there to suppose that plants would be left in Canada, much less expanded?

Proximity to the market will not be as key a factor since the point of free trade is to encourage specialized production for the American and world markets.

Proximity to raw materials, while theoretically a factor in investment decisions, has failed to secure a significant and fully developed industrial sector for Canada in the past, and so is unlikely to override the effects of loosened trade barriers.

Maintenance of production in Canada increasingly will rest on the productivity and competitiveness of the Canadian plants. This will mean heightened pressure for the introduction of more job-replacing technology. It will mean stress on workers to lower wage demands, weaken work rules such as seniority that restrict management's flexibility, back off from health and safety requirements, and make other concessions to make the Canadian plants more competitive in order to keep jobs in Toronto, Windsor or Peterborough rather than have them moved to Florida, Texas or Alabama.

In other words, the freer trade with the United States will strengthen the employers' hand in demanding concessions since the economic advantage of production in Canada will have been reduced.

Supporters of free trade cite the transportation industry to counter this claim. In particular, they point to the auto pact, which they claim established free trade in automobiles. Exports of cars have almost doubled since 1982 and almost all the exports are to the United States, and in 1984, Canadian exports of cars exceeded imports by \$6 billion. They usually fail to point out that the surplus of trade in cars was offset by a \$6.1-billion deficit in the automobile parts trade.

But the auto pact is a poor indicator of what will happen under free trade. As Patrick Lavelle, president of the Automotive Parts Manufacturers Association of Canada, stated in a speech to the University of Western Ontario business school club earlier this year: "Those who favour free trade with the United States and use the auto pact as an example forget or disregard the fact that the auto pact includes safeguards that require certain activities in Canada. Without those safeguards there would be no automotive industry in Canada."

These predictions were echoed by Bob White, head of the United Auto Workers, before the Special Joint Committee of Parliament on Canada's International Relations. He said, "Without safeguards, we would not have as much auto industry activity in Canada today."

Since 125,000 workers are employed in this industry, it makes a good deal of difference whether the free trade economists or the labour and management representatives of the industry are right.

10:40 a.m.

The Americans have frequently voiced objections to the terms of the auto pact since it was negotiated a number of years ago. Any belief that they would allow similar safeguards in free trade deals in the future is most unlikely. As Mr. Lavelle pointed out with respect to the subsequent informal free trade discussions held between the United States and Canada, "Safeguards are no longer on the negotiating table."

While the government of Canada could try to limit the destructiveness of free trade with safeguards, it has little clout with which to force the American government to accept the kind of



safeguards that free trade is set out to eliminate.

Supporters of free trade have also argued that free access to the American market will allow smaller Canadian producers to grow and offset the losses that will occur among foreign-owned firms. But this, too, is wishful thinking that dissipates when one looks at the hard reality of economic life. Few small firms grow to be big firms. Most smaller firms go out of business. Those that succeed do so because a large transnational takes them over to acquire their technology, products and market.

The suggestion that the smaller Canadian-owned sector could grow in the American market, thus keeping jobs in Canada and enriching the Canadian economy, is without foundation.

On the contrary, free trade would weaken the overwhelming majority of Canadian-owned firms because the foreign-owned transnationals have far more resources to make rapid adjustments to gain any new markets resulting from a new trade deal.

However, free trade would open the doors wider for trade in resources, a prospect that puts the provincial governments with resource-based economies firmly in the free trade camp as was demonstrated at the recent provincial premiers' conference.

This would result in an even faster depletion of Canada's many nonrenewable resources. It would also fail to alleviate the economic problems facing the western and eastern provinces whose economic difficulties result from the fact that their economies are resource based. Economic diversification depends on precisely the kind of government policies that free trade is dedicated to eliminating.

The major economic consequences of free trade with the United States will likely be:

1. A decline in manufacturing activity in Canada, particularly in the most labour-intensive industries and those in which economies of scale are most crucial. These effects will be heightened because of the extent of foreign ownership and transnational control of Canadian industry.
2. A significant increase in unemployment, both in the short term, due to the reorganization of industrial policy to shift support from losing industries to winning industries, and in the long term due to the relocation of production outside of Canada.
3. Increased pressures on the remaining workers to make concessions to be internationally competitive, with the consequent decline in labour income, working conditions and living standards.
4. A reinforcement of Canada's long tradition as a resource exporting economy; the proverbial hewers of wood and drawers of water.

However serious the economic costs of free trade, the social and political costs will be greater, costs almost wholly ignored or discounted by free trade advocates.

The economic dislocation produced by free trade would cause severe regional adjustments as the economy became redirected toward resources and resource-related manufacturing. All provinces would lose. As we noted previously, the western and eastern provinces would become even more deeply mired in their resource-based, stunted economies. Ontario and Quebec would be the biggest losers, not only in the short term but in the long term as well.

Professor Fred Lazar of York University describes the effects in the case of Quebec. "...in the case of Quebec, a decrease in regional exports resulting from a reduction in Canadian tariffs would lead initially to a decrease in investment and income. This decrease would lead to capital outflows and over time even lower levels of investment in the province and lower levels of demand. The decrease in income would be aggravated by the decrease in investment and lower levels of demand within the province and, in turn, would lead to decreases in real wages and/or increased unemployment and eventual labour outflows. Thus the longer-term losses of the Quebec economy would be much greater than the short-term losses..."

The economic costs of regional adjustments may be dwarfed by the political costs, as economic decline provokes the already troubled Canada-Quebec relationship.

The larger political problem posed by free trade is the issue of the sovereignty of Canada itself. This issue may present itself in a number of forms.

Since a free trade agreement with the United States will cause a restructuring of the Canadian economy to integrate it with the American economy, Canada will subsequently be more vulnerable to American threats to end the agreement. Such a threat could be used to coerce Canada into accepting American policies in wholly noneconomic areas.

As Ronald Anderson, a Toronto Globe and Mail columnist and free trade advocate warned in a review of an Ontario Economic Council study: "There is a risk, though, in the fact that membership in a free trade area would be a much more irreversible option for Canada than it would be for the United States. In a fully rationalized Canadian-US economy, US companies would have a limited reliance on the small Canadian market but Canadian companies would be heavily dependent on sales in the United States."

"Thus, an American threat to terminate the agreement would be very difficult to resist and might conceivably be exercised to influence Canadian policy in quite unrelated noneconomic areas."

The Ontario Economic Council study that Anderson was reviewing dismissed this concern by arguing that such an American action would be very unlikely. Not all observers have such a charitable view of the United States.

Whether or not the United States would use Canada's greater vulnerability under free trade to force it to bow to American

wishes in noneconomic areas, a free trade pact would eliminate much of whatever Canadian independence remains in economic areas and would directly intrude in a number of other areas important to Canadian life.

Since free trade means there will be an end to all forms of protection, not just the elimination of tariffs, the effects on Canadian sovereignty would be very broad. Free trade can serve to limit Canadian government autonomy in a host of ways that are not commonly associated with trade.

Canadian taxation policy would have to be integrated with American policy, since tax policies that would benefit a certain business sector would constitute state support for that sector and put that sector at an advantage over a comparable sector in the United States. The national energy program, preferential treatment for small businesses or any other program that gave an advantage to a certain sector or to Canadian corporations would violate free trade.

Assistance to farmers, import restriction on dairy products for poultry or other agricultural goods, marketing boards and other aspects of agricultural policy would violate a free trade agreement where those policies put Canadian farmers in a more advantageous position than American farmers.

When purchasing goods and services, Canadian governments could not give preference to Canadian-made goods or services since that would be a form of protection for Canadian business.

Regional development grants to deal with regional disparities would violate free trade if it were deemed that such grants were a subsidy to Canadian producers and thus a preference against American competitors.

The right of Canada to have crown corporations could be questioned since government investment in crown corporate activity could be determined to be a subsidy to put the corporation in a better trading position. Canadian crown corporations in grain trade or in alcohol marketing have already been questioned by foreign officials as discriminating against their own national producers.

Local content laws which require a certain relationship between sales and production in Canada would be a clear violation of free trade.

Banking laws which restrict the activities of foreign banks, long a feature of Canadian policy, are discriminatory under free trade.

Also discriminatory are Canadian practices that regulate transportation in favour of Canadian carriers and regulate the use of other services so as to protect Canadian operations.

Research and development assistance would have to be brought in line with American policy so that a different Canadian policy



could not be deemed to be protection of certain Canadian industries.

Canadian standards regulations would have to be reviewed and brought in line with American standards since more stringent standards in Canada could be construed as a nontariff barrier to American manufactured goods.

Copyright law, patent legislation and trademark laws would have to be revised so that the differences from American law would not put Canadian industry in an advantageous position with respect to American industry.

Even environmental laws would have to be made comparable to American laws since differences in such laws could put one country's producers in a more advantageous trade position.

These are not just imaginary possibilities. The American intentions for Canada were made clear in the Canada-US work plan on trade released with the Mulroney-Reagan declaration on trade in goods and services at the Quebec summit. Among other instructions were plans:

To negotiate an agreement in which each government opens federal procurement and funding to companies of the other country. In the meantime, the two leaders agreed to resist any buy-national requirements at the federal level that discriminate against products of the other country.

To facilitate the cross-border movement of highway trucks and trailers, railway rolling stock and intermodal containers. With American deregulation in these areas, this plan means that Canada will be pressured to deregulate. The federal Minister of Transport has already begun the move towards deregulation in recent months.

To encourage trade in high-technology goods and services, a field overwhelmingly dominated by American firms, through the elimination of tariffs and an end to government preference for goods manufactured domestically;

10:50 a.m.

To assure the compatibility of requirements for package labelling and legislation on hazardous products;

To ease rules for cross-border travel for business and commercial purposes;

To resolve problems in patent and copyright law. The Americans want to eliminate Canadian legislations, such as in the case of drug manufacturing, in which Canada allows generic drug manufacturers to produce patented drugs to reduce the cost to consumers.

Quite apart from the Mulroney-Reagan summit, Canada is being challenged about its actions in a number of the previously identified areas.

The Liquor Control Board of Ontario is being challenged as protectionist because it imposes a different markup on domestic and foreign wines.

A United States Senate agriculture committee report claimed Canada was being protectionist when US researchers discovered Canada sent China better grain than it paid for, because the Canadian Wheat Board had a surplus of the higher quality grain. That practice was seen by the committee as discounting grain.

The American timber industry is currently claiming Canada is subsidizing domestic producers. Their objection is to the Canadian tradition of resources belonging to the crown and, in the case of timber, the government charging the timber companies a stumpage fee. In the United States, resources tend to be privately owned. Since buying the land for logging, as in the United States, is more expensive initially than paying a stumpage fee, as in Canada, Canada is, in the American view, discriminating against the American loggers and they want Canada to eliminate this subsidy.

As Tom Walkom, former economic reporter for the Globe and Mail, and now its Tokyo bureau chief, points out:

"In this case, free trade could lead to private ownership of Canadian forests, a development that, whether desirable or not, would involve a fundamental shift in the philosophy of government and economy."

The list could go on. The point is that a free trade pact can have a bearing on all economic policies relating to the country's balance and structure of trade, which means more than narrowly defined trade policies will be affected. The implication of free trade would be to tie Canada to the current American policy of free market capitalism, to the right-wing Republican vision of giving big business a free hand to set the economic and, by implication, the social and political course for the country.

Free trade is much more than the elimination of tariffs. In fact, it is the elimination of nontariff barriers which would have the broadest effect. It is clearly the intent of the American government to achieve a broad elimination of nontariff barriers in its current campaign to initiate trade talks, whether on a bilateral basis with Canada or in another round of multilateral talks through the General Agreement on Tariffs and Trade.

While Canada could seek exemptions in certain areas, too many would undermine the point of the agreement. Furthermore, there is little evidence Canada is in a strong position to force the Americans to agree to exemptions that benefit Canada.

In short, a free trade pact would tie Canada's social and political life even more closely to that of the United States and would lead to the elimination of the remaining elements of sovereignty that Canada has managed to preserve to this point in its history.

As was noted in the introduction to this paper, the issue is not primarily free trade, but what kind of economy we want for

Canada. Those who push for free trade have already accepted an export-oriented economic development strategy. Some form of free trade is an inescapable result, whether it is multilateral or bilateral.

There are options. Some have argued that the status quo is better than free trade. In a submission to the Special Joint Committee of Parliament on Canada's International Relations, economist Arthur Donner argued:

"While US trade problems are very severe at this time, the committee should not lose sight of the fact that market forces are already weakening the US dollar, and the recent downshift on the growth rate of the United States economy is already moderating the trade deficit of that country."

Donner went on to say it would be a shame if Canada allowed itself to be pressured into a trade arrangement with the United States which put the Canadian economy and the country's economic and political institutions at risk "because of the US reaction to trade problems which could have completely reversed by 1990."

While Donner's point is a good antidote to those urging a panicked response to the issue of free trade, maintenance of the status quo in the long run is still based on an export-oriented development model which has continuous pressure for freer trade built into it.

The core of any feasible alternative would be for Canada to turn to an idea of economic development based on providing necessities for the Canadian market--a self-reliant development model that seeks to create room for an independent Canada. In many ways, this is the exact opposite to the transnationals' and the federal government's program for Canada.

Self-reliant development requires that Canada's focus be on the production of goods and services which people need in order to ensure a decent standard of living for all Canadians.

Exports and foreign trade are not eliminated. They are just made subsidiary to meeting Canadian needs. An export focus would be limited to selected industries in which Canada already has an established base and a reasonable prospect for future development. In addition, there would be an attempt to export surplus production of goods made primarily for the Canadian market. But exports would be a secondary part of the strategy so that it would be more difficult to force Canada into the international competitiveness game and so that Canada could protect itself from retaliation by transnational corporations and governments under their sway.

As other proponents of self-reliance have indicated, that strategy requires careful use of our native material resources. The church-based research group, GATT-Fly, noted in its support of self-reliant development:

"Environmental pollution and exhaustion of mineral and biological resources ... are perfectly acceptable to a system in



which production and profit elsewhere is part of the global corporate plan. Neither are acceptable if sustaining indefinitely a wide spectrum system of production in a given country is essential."

Self-reliant development likewise requires full employment. Canada's greatest resource is its people. To waste that resource, as does any economy whose purpose is to keep wages down and profits up, is to condemn the whole society to less than its people deserve.

Finally, self-reliance calls for genuine international co-operation, not international competition. Competition benefits the transnationals, which grow by playing workers and countries off against each other. Self-reliance, on the other hand, depends on mutual support among nations and peoples struggling for their own economic independence.

Exchanges of science and technology can be crucial to countries trying to develop production techniques suitable to their own goals and their unique resource bases. Trade among nations pursuing self-reliance can be mutually beneficial, as can increased trade with socialist countries. Such trade can help create international bonds based on democratic choice, not exploitation and greed for transnational corporate profits.

Self-reliance offers the prospect of bringing Canada's economy back under our control, of removing Canada from the indiscriminate power and changing policies of giant corporations, of meeting people's needs, of redirecting Canada's productive capacities in the interests of its people and of providing a surer future for all Canadians.

In the short run, the power of transnational corporations and the American government would be used to punish Canadians as we moved towards self-reliant economic development. Living standards will be driven down and various commodities will be withheld from Canada. But the present economic policies are also resulting in a serious deterioration of living standards, where more than a million and a half people are unemployed and wage levels are continuing to fall further and further behind inflation.

The difference is that, under present policies, matters will continue to deteriorate. There will be occasional periods when things will stabilize but the long-term trend will be one of deterioration in the situation of the working class in Canada.

Under a self-reliant model, the problems will result from the opposition of capital. But once this is overcome, self-reliance offers the long-term prospect of improvement in living standards. To surmount the formidable obstacles that corporations and the American government will place in the way of Canada achieving self-reliance will require a realistic awareness of the problems and a strategy to overcome them. The key is putting limits on corporate power and especially on the mobility of capital.

In brief, the strategy requires that the state control Canada's financial institutions so that Canada can control the decision about how investment capital is distributed. It requires public ownership of the key corporations in each industrial sector in order to enable Canadians to have a voice in the overall planning of the economy. Public ownership has the potential to open the door to assuring that corporate decisions are made for the public, rather than for the corporate interests, provided that public ownership means public control, unlike in the case of most publicly owned corporations in Canada today.

11 a.m.

Controls must be imposed on the flow of capital. A necessary element will be foreign exchange controls to limit the outflow of capital. Without exchange controls, corporations and investors will act to destroy the Canadian dollar. Exchange controls cannot completely stop speculation against the dollar and the outflow of capital, but they can stem the tide and contribute to a more stable economic climate. Exchange controls have been used at one time or another by virtually all Western countries.

Import controls are essential to prevent transnationals using Canada as a dumping ground for manufactured goods, priced low to undercut Canada's redevelopment of self-reliant, publicly owned manufacturing industries. Import controls are also necessary to ensure that the remaining privately owned corporations produce their fair share in Canada.

Price controls are another essential element. Often presented as a stopgap measure, price controls are necessary to limit the pricing power of corporations since that power can be used to destroy competitors and undercut government economic policy.

In the face of the continuing economic crisis, there have been increasing calls for a change. Some, like the Catholic bishops, have pointed to the need for a society that would "place priority on serving the basic needs of all the people of this country, on the value of human labour and on an equitable distribution of wealth and power among peoples and regions." They see the means to be explored as, again in the words of the bishops, "an alternative economic model that would place emphasis on socially useful forms of production; labour-intensive industries; the use of appropriate forms of technology; self-reliant forms of economic development; community ownership and control of industries; and a greater use of renewable energy sources in industrial production."

The response of business to the crisis has been to argue that we need more of the same--more power and control given to capital at the expense of workers. A part of their design is to achieve free trade. But free trade, and the larger free enterprise model of which it is a part, will not work in Canada's interests. We will become poorer, lose much of our existing economic base and become a mere appendage of the United States--a resource-supplying hinterland that will be discarded on to the scrap heap once our resource wealth has been consumed.

Mr. Chairman: Thank you. That is rather hard-hitting. It has hit on a lot of points that have been made. I almost wish, in rebuttal, Richard Lipsey was here. You seem to be saying we should not concern ourselves with volume of trade. He gave us a bit of a lecture last week that volume of trade was a criterion for growing income. You disagree with that, I take it. Any questions?

Mr. Turk: We wish Richard Lipsey was here too. He and his fellow economists, as we tried to indicate in the paper, have become the conventional wisdom. People take what they have to say as well established. If anyone questions it, they trot out their very complex models which, as we indicated, only economists could possibly understand; yet the problem is those models have very fundamental weaknesses which do not get addressed adequately.

Mr. Chairman: Does he not have some historical reasons for saying it? We can see countries such as Holland that have done extremely well historically because of high volume of trade.

Mr. Turk: It is hard to deal with those historical examples without going into them in some depth. When one looks at any alternative arrangements in another country, one always has to look at the particular historical circumstance of that country, the time in which the policies were brought in and a variety of other factors that were happening in the world economy. That is precisely the problem with their kind of analysis. They make leaps from those examples to generalizations that the same would apply at the present time in Canada. That is what we question.

Miss Stephenson: Although there has to be a transition period to pursue the goal which you are setting out for Canada, since the province of Ontario has the largest manufacturing base and since about 80 per cent of what we manufacture is exported, how long would the transition period be to get to the stage of self-reliance? If you are not suggesting that all of our trading partners enter the same kind of ideological pursuit and direction as we do at the same time, what happens when all the rest of the world is going in another direction?

Are you suggesting that we only trade, for example, with the eastern bloc during that period of time and that will somehow stabilize our capacity or maintain our employment? Are you suggesting that we not deal with Japan, the United States or the European Community or Australia, New Zealand or any of the other countries? Or are you saying that really what we can do is tighten our belts, hopefully right down to the very last notch, so we can all survive during this transition period until we get to that self-reliant state, when we know it is a country that can never be totally self-reliant in a world which is becoming increasingly interdependent, although we can probably be much more so than others?

Mr. Turk: I do not think we are suggesting any of the things you are proposing.

Miss Stephenson: I want to know how long the transition period will be and how do we get through that?



Mr. Turk: The term "transition period" is one you will discover occurs on both sides of this argument.

Miss Stephenson: I know that.

Mr. Turk: Free trade advocates talk about the transition period.

Miss Stephenson: I know about the other side. I want to know about your side.

Mr. Turk: We have the same limitation they have. If any of us could be terribly exact about what was going to happen over the next 10 or 15 years, everyone would rest easier. Economists have a terrible track record with those kinds of projections, whether they be free trade or anti-free trade. We are trying to indicate the direction we feel economic development should take as opposed to export-oriented development. We are trying to sketch what that direction would be; that is, we start by concentrating on manufacturing and other activities to meet the needs of Canadians, and export and trade in a way that follows from the logic of that.

There are many examples. There is a desperate need for housing in Canada. A variety of desperate needs are not being met that we have the capabilities of meeting and we should direct our economic development to meeting those needs. That does not mean we should cut off all the trading we are doing. We trade currently in a number of areas where we have established trading relationships, with the United States or with other countries. Naturally, that would continue.

An example in our industries is hydroelectric development where Canada has some of the best technology and is a leading player. Whatever policy is followed, free trade or otherwise, that trade would continue. We are not saying we should build up walls and not trade at all. We are saying the thrust of the policy should not be to scale down what we do for the Canadian market and really grow by exporting.

Miss Stephenson: I do not think anybody suggested that.

Mr. Turk: Most economic policy--

Interjection: Free trade advocates.

Mr. Turk: Yes, indeed.

Interjection.

Mr. Turk: Of course they are, and most major corporations. Canadian General Electric and Westinghouse Canada are the two largest corporations we deal with. It is a very explicit part of their policy. I can bring you copies of their statement.

Miss Stephenson: They do not worry about what they are producing for Canada.

Mr. Turk: That is right. Westinghouse has a policy of trying to increase its export production so by next year or the year after 50 per cent of its production will be exported. Canadian General Electric has been very clear. It is part of a larger General Electric world strategy. They are going to world product mandating so they do not produce for the domestic market in a given country. Canadian General Electric would produce a handful of goods for the world market.

Miss Stephenson: That has not necessarily been the attitude nor the philosophy of a great many of the presenters we have heard in this committee--or that I have heard in this committee at any rate. It may be the philosophy of one or two companies but I am not sure it is--

Mr. Taylor: Global product mandating is the philosophy of the previous government.

Miss Stephenson: Yes. It was the policy of the Liberal government in Ottawa.

Mr. Taylor: As a Conservative government, we were promoting global mandating and encouraging it in every way possible. That does not mean it is wrong. It is just being pointed out that is the way some of the larger companies are going and presumably that would be a badge of success for the Ministry of Industry, Trade and Technology.

Mr. Barry: At the same time, we have companies such as General Electric in the United States, which is the sole owner of Canadian General Electric. They listed 10 corporations or subsidiaries they control. They are saying that Canadian General Electric either has to shape up or it will ship out. In turn, Canadian General Electric owns Camco, one of the largest appliance manufacturers in Canada. We deal with them. At the General Electric factory in Louisville, Kentucky, they produce six months' production in one week. We are concerned about the Canadian market being served by free traders; that is where the jobs would be.

Mr. Turk: Coming back to what I take to underlie your question, you are saying that most of the presenters really have not talked about this phase. We opened up our paper by saying trade policy is only one element of economic development policy. I think this is absolutely crucial for your committee and I hope you question the free trade advocates on this as well. It flows from a certain economic development policy and it is the economic development policy that is the fundamental issue.

11:10 a.m.

Once you have decided on your economic development policy, trade policy follows from it, and you have made decisions about trade policy based on the economic development policy that you have adopted. The overwhelming economic development policy alive in almost every major corporation in Canada today is an export-oriented model. Whether they have talked about it or not, that is what lies behind it.

Miss Stephenson: But it is obviously because of the size of the market that is available to them in Canada, which in today's terms is not viable for the long term. So they must look at both the domestic market and the export market.

Mr. Turk: We are saying this is not correct.

Miss Stephenson: It is not correct.

Mr. Turk: That is not correct.

Miss Stephenson: The other thing I would like to suggest is I have read all the presentations and listened to those for which I have been present, and I can think of only two that I consider to have been advocating totally open-ended free trade. Everybody else has some kind of reservation, limitation, impediment, inhibition or something of that sort on it, and that is undoubtedly the kind of direction we will be pursuing as cautious Canadians. I do not think anybody, except for two people, has advocated wide-open free trade. Al Heisey was one and Wonnacott was the other.

Mr. Taylor: I think they are realists, in that free trade is a notion--

Miss Stephenson: And it is a no go as well.

Mr. Taylor: --but it is certainly not practical in terms of implementation--

Miss Stephenson: It is impractical.

Mr. Taylor: --in the pure sense.

Miss Stephenson: It seems to me this is almost as impractical as suggesting that we look totally at self-reliance for Canada in the face of a shrinking global village. I have some difficulty with that, and that is what I am trying to express to you.

Mr. Turk: This comes to the heart of the matter, and that is why it is worth pursuing. It is taken for granted that the Canadian market has the primary focus.

Let us be clear: We are absolutely not saying that we should cut off exports and not trade. What we say is that the core of economic development strategy for Canada should be to supply the Canadian market and identify particularly those areas of the market where there is a substantial market that has not been developed, and that trade with other countries, exports, should be secondary to that rather than the reverse. So it is not either/or. That is important.

Miss Stephenson: Surely it is a 50-50 kind of thing.

Mr. Barry: One of the best examples we can give you is the appliance industry. That industry, as you know, has gone from



10 major producers in 1976 down to three now, and one of those is on its last legs as well.

We meet with these companies as a white-goods council, and their orientation is towards export. The largest proportion of the appliances is imported into Canada. Their exports as a total industry are less than one per cent of the goods that are produced here. How are they going to grow if that is the orientation?

I am telling you that the parent company of Camco alone, General Electric, can supply six months' need in the Canadian market from the Louisville plant in a week.

Miss Stephenson: At significantly lesser cost than would a Canadian firm?

Mr. Barry: That depends on the dollar value. It depends on the wage levels.

Mr. Mackenzie: You ring two or three bells with me. I have been interested in the development of Camco, and I think you make a good case concerning the white-goods industry. That is a plant that has gone from I do not know what employment up to well over 1,000 workers now. It is one of three that have survived in this country.

About five or six weeks ago I sat in on a meeting of the president and three of the top officials of Inglis with the mayor of Stoney Creek, and they told us very bluntly that the three may very well shake down to two. That seems to verify exactly what you are telling us here, and it means we may lose even more of what we have in the white-goods industry in this country. We heard testimony before this committee that the current 10 or 12 operations in the United States may very well shake down shortly, that there is a shakedown coming in the white-goods industry in the US to maybe as few as five plants there.

I knew that the Camco production is fairly large and increasing but still could be handled by a very small part of the American operation. What kind of protection do we have so that with industry in Canada already saying that the three may go down to two, we will hang on to even the Camco operation if we have this kind of opening up?

It seems to me that the rationalization going on in white goods means that we either write some protection into our industry or we might as well kiss it goodbye. I do not want to be worrisome on this, but are you concerned that we could see even fewer than the two or three white-goods industries in Canada?

Mr. Barry: We see what would happen over the long haul. There would be simply the elimination of the white-goods industry, as there has been an elimination of what we refer to as the brown-goods industry; stereos and television sets. There is no manufacturer of those products in Canada. The white-goods industry would have gone exactly the same way had it not been for the tariffs. We have already seen within the white-goods industry in Canada a complete rationalization of companies, from 10 in 1976

down to three--

Mr. Mackenzie: And more coming.

Mr. Barry: In addition to that, there has been a rationalization of the existing three companies--Mr. Mackenzie talks about the production and the numbers of jobs that have grown in Hamilton--but it has been at the expense of the workers' jobs in Weston.

Mr. Mackenzie: I would like to return to the argument about size--I listened to some of the Dr. Stephenson's comments. Some of the economies of scale arguments go out the window. It may be part of the world-wide rationalization, but I note the answer now in the US steel industry is not the large operations. The salvation is in the small mills and the specialty operations which are growing very rapidly and which do not require the economies of scale we talk about in industry after industry. If there is a salvation for the steel industry in the US, it is in the mini-mills and the specialization.

Miss Stephenson: I was not really talking about economies of scale, I was talking about the absolute need for producers in Canada, no matter how large or how small, to have a market beyond the Canadian market.

Mr. Mackenzie: That argument is a little suspect in view of some of the things that are happening in the world today. You talked about economic development. What we are really looking for in this country, more than argument over free trade, is to finally get down to discussion on industrial strategy.

Mr. Barry: That is right. That is the key. From that, we discuss and develop what should be the basis for the economy in Canada.

Mr. Mackenzie: --whether it is content or self-sufficiency, or whatever the argument is.

Mr. Barry: In our paper, we did not argue that we simply cut off our trading partners. What we are looking at is, first, what should be the major thrust of servicing the needs of Canadians? That is the economic policy. From that, export comes second. We develop exports, but not simply bilaterally with the United States. We have a multilateral trading arrangement.

Mr. Taylor: Implicit in your economic theory is the need to recall our capital. I presume that would mean nationalization of our banking industry and financial institutions. Also, you mentioned nationalization or public acquisition of key industries in key sectors. Presumably that is a foundation of an economic policy to protect what we have now in view of--I hesitate to use the word flight--the lessening of the strength of some of our key industries. I am interpreting what you are saying, so please correct me if I am wrong. Would that be a fair comment?

Mr. Barry: Yes.

11:20 a.m.

Mr. Taylor: Never mind the discussion on free trade or enhanced trade or more liberalized trade. What you are saying is that our economy is suffering now as a result of the rationalization that is taking place around the world. We are losing some of our key industries or they are becoming much weaker, which means we will not have them as part of a modern sophisticated industrial economy. If we want to do something, maybe we should start with, for lack of a better phrase, an industrial strategy and then go from there in terms of how our trade patterns might work out.

Mr. Barry: That is exactly what we are saying.

Mr. Turk: Most free trade advocates acknowledge the difficulties the Canadian economy is facing. but they see a movement to freer trade and being able to get better access to the American market as ways of solving that problem. We are saying the evidence that approach would work is slim indeed.

There is a lot of conventional wisdom around that they have no choice but to try to get those markets because they cannot survive by servicing the Canadian markets, but if you look at it, you have to look at sector after sector to answer this. We can give you that kind of information for our sector. We do not have much of the Canadian market at present.

Let us take small appliances, for example. It used to be the case that almost all the small appliances bought by Canadians were made in Canada. The biggest plant in Canada was the Canadian General Electric plant in Barrie, which made 26 small appliances. CGE, as part of General Electric's global reorganization, got world product mandates for seven products. It made three key ones, lawn mowers, electric kettles and electric fry pans. The other 19 products were moved out of that plant and are supplied from the United States or Singapore or somewhere else in the GE chain, so we immediately lost that market.

Production for the world mandate has not made up the difference. GE got out of that whole business and sold it to Black and Decker, which closed the Barrie plant and moved it to Brockville and is moving a number of its lines out of Brockville to the United States and Brazil. What we have left in the small appliance industry in Canada are two major manufacturers, Sunbeam and Black and Decker. The Sunbeam operation is largely an assembly and warehousing operation, so we have far less small appliance business manufacturing in all Canada than we used to have in the Barrie plant of one corporation.

In sector after sector, that same pattern is emerging. The suggestion is that, if we somehow oriented those sectors to getting more of the American market, we will make up for that deficit, but the evidence we could do that is not there. We met on this white-goods council with the chief executive officers of the appliance industry, both the white goods, which means major appliances, and some of the others.



One of them gave his corporation as an example. The problem they were trying to resolve is what can they do to regain some of their productive capacity in Canada. They thought the smart thing would be to try to get a niche in the American market that is too small for their parent corporation to produce and concentrate their efforts in developing that product line and selling it in the United States. Because of the difference in the dollar, it was feasible to do that despite the tariff and other barriers.

They tried that in one product line and it did not work very well. Then they tried it in another product line and were very successful. As soon as they demonstrated there was a market, their parent corporation took it over and moved production to the US. The reality that underlies a lot of what we are dealing with is that most of the competition Canadian producers face consists of much larger corporations in other countries.

What reason is there to think the smaller Canadian operation can nose out the larger American and Japanese competitors? It takes a great act of faith to think we are going to be able to do that. There is not a lot of evidence that we have been able to do that successfully in many sectors. The one example routinely cited is Northern Telecom, but it grew under the umbrella of AT&T. It did not start out small and grow big. All the high-tech examples that are routinely cited, such as Mitel and so on, are coming under hard times. The ones that are successful are the ones that get taken over by some large foreign-owned transnational.

We are saying the logic of the free trade argument, attractive as it may be, does not empirically hold up, except in projections from economic models that are suspect. If you look at the historical evidence, there is very little reason to think the deficit in Canadian manufacturing that everyone acknowledges can be made up by getting access to American or Japanese markets.

We cannot even get enough of our own Canadian market. We hear that from the companies we deal with. In the case of transformers, appliances, etc., we are losing more and more of the Canadian market to competitors who dump goods such as transformers in Canada. Most of them would have a significant increase in production if they could get the Canadian market.

Mr. Taylor: I share your scepticism about economic models, especially computer models that develop these economic models. I understand Dr. Stephenson expressed some concern about the impact of your proposal on our present economy, presumably because it would be somewhat precipitous. Your change would have to be fairly swift. For example, the implementation of foreign exchange controls and then the reaction to that, the expression of the policy of nationalization and the reaction of the United States and other countries to that, and the reaction of some Canadians to that.

Mr. Mackenzie: You are raising a bit of a red herring.

Mr. Taylor: Excuse me, I do not think it is a red herring.

Mr. Mackenzie: You are, very much so. I will respond to it when I get my chance.

Mr. Taylor: I do not think it is a red herring. I am pointing out, as I understand some of the gist of the concern already expressed by one of our members, what are the dislocations? What happens? Again, I prefaced my remarks by sharing your scepticism of economic models and computer models. But do you have any projections with regard to the ramifications of the policy and the implementation of that policy? For example, I mentioned foreign exchange controls on the economy. You predicted a lessening or decrease in the standard of living in the short term. Am I correct in that?

Mr. Turk: Yes.

Mr. Taylor: Even with the scepticism of the models, I am just wondering what you predict.

Mr. Turk: There is no doubt that were we to dramatically change direction in a way that the large corporations and the American government saw as hostile to their interests, they would act in ways that would create serious difficulties for us. It would be dishonest to hold out an alternative model, and I suggest there would be difficulties in moving to that. But we are a long way from that position and we are not coming before this committee urging you to adopt our economic development strategy, or to suggest that even if you did adopt it, the government of Ontario or the government of Canada could implement it tomorrow. That is not why we are here.

We are here to say that the one thing you can do is to urge the government of Ontario to take a strong position against a bilateral free trade agreement with the United States at this time, which is essential. What we are trying to do is locate our argument in a strategy that is a long way down the road, but we are saying there is an immediate step if we, as Canadians, agree to that kind of free trade, freer trade, trade-enhanced relations or whatever euphemism one wants to use these days for free trade. It is a step where there are going to be very serious costs. We are trying to show the background to that, but we are not saying we expect you to agree to this and we expect the government to bring it in.

Should there be the political support for this that much of the labour movement is trying to build somewhere down the road, it would, as you suggest, have to be brought in as a whole package and so on. But at the moment, the issue before us is the question of that freer trade arrangement with the United States, which we think will be disastrous. It is only if we agree to that shall we see whether we are right or whether Ron Wonnacott and his economists are right. We are pretty sure they are wrong and it is going to be a big price for Canada to pay to discover that fact.

11:30 a.m.

Mr. Mackenzie: I have a couple of quick observations and then a response to one of Jim's arguments.

First, in world product mandating, or even national product mandating, how comfortable are you people with any successes we have had there? You have pointed out that we are the losers in some of the small kitchen appliances. I raise it with you simply because I also had occasion to meet with some of the Firestone people recently. One of the things that shocked me was that we had entered into a modified product mandating operation in the Firestone operation in Canada, and in Ontario in particular.

We found out the Hamilton plant ended up with all of the truck nonradial tires. Because this was still a fair market it seemed to be good for a time. But as they admitted, if the trend continued and the trucks got in totally to the radials as well, we could be out in the cold. Already there are questions being raised about the fantastic new investment in that Firestone plant in Hamilton. It could go down the tubes. So we did not do too well in the negotiations we had with regard to product mandating in the Firestone plant.

Several witnesses have told us we should take a look at our situation sector by sector, and that is also one of the things we are going to have to do if we are going to discuss seriously those areas we may be able to open up to a little more trade.

The comment in response to Jim's remark is simply that I do not know why, the minute you talk about an industrial strategy, the first thing that springs to mind is nationalization. I recognize as much as anybody, that scares some Canadians and certainly would scare some of the Americans or our trading partners. I may differ slightly from the people appearing before the committee on this issue, but it is a word I have no fear of and is a very useful tool and has a role in some sectors of our economy.

It is not the be-all and end-all or the necessity with regard to a policy of self-sufficiency or industrial strategy that we are going to operate in a whole different way in this country. You have to recognize it is a tool you can use, but you certainly do not start out by scaring any serious discussion about a new industrial strategy by raising the bogeyman of nationalizing everything, or even a good part of the doggone country. I do not think that is implicit in such a policy or decision.

Mr. Taylor: Mr. Chairman, I did not raise the bogey; it was raised by the people, in their submissions, who appeared before us. I want to make that clear.

Mr. Mackenzie: I notice how fast you fastened on to it because it is a good anti argument.

Mr. Chairman: Let us get back to questions.

Mr. Ferraro: First of all, I wish to apologize to everybody here for being late. Mother Nature did not co-operate on Highway 401 this morning.

Miss Stephenson: That was a lovely rain, was it not?



Mr. Ferraro: It was unbelievable. What a cloudburst. I might add, it is a lot wetter when you are bald, Mr. Chairman.

Interjection: Do you drive a convertible?

Mr. Ferraro: I should not be so bold as to ask a question but I will, in any event, on your third viewpoint here. I get the impression that when you are talking about free trade or a lack of it, as Dr. Stephenson indicated, and trade enhancement and all those other wonderful words, the bottom line of it for me is jobs. Every politician usually adjusts his seating arrangements somehow when you talk about loss of jobs and taking industry and moving it elsewhere.

You quote statistics of roughly 46,000 jobs that would be lost in your industry, gentlemen, as a result of free trade. Surely there must have been some jobs created as a result of investment by not only United States industry but other foreign industry in the last few years? I keep hearing about the loss of jobs. Are there any statistics available in your industry on creation of jobs? I probably would be correct in saying the result is a negative balance. Surely somebody must be investing in Canada in the last 10 years.

Mr. Barry: Not in the electrical industry.

Mr. Turk: Almost all the investment in Canada in the electrical industry has been the reinvestment of profits made in Canada, not even the reinvestment of all those profits, with respect to new investment--

Mr. Ferraro: But with the reinvestment of profits, are you saying there were not any new jobs created whatsoever?

Mr. Turk: There has been a dramatic decrease in jobs in the electrical industry in Canada over the last 10 years.

Mr. Ferraro: Right. But with technology and so forth, were there not any new jobs created?

Mr. Barry: There are occupations that have been created. The net result is loss of total employment, total numbers of jobs that have been depleted.

Mr. Ferraro: Yes, but what is the net loss? That is what I am getting at in a roundabout way.

Mr. Barry: I can give you an example. The Westinghouse plant in Hamilton in 1956, one plant, had 6,500 employees. It now has 700.

Mr. Ferraro: I am just playing the devil's advocate. What I am trying to get at is--

Mr. Barry: That is one example.

Mr. Ferraro: As opposed to taking one example, there must be somewhere along the line--I think of my own constituency perhaps--

Mr. Turk: I do not know what you mean by new jobs. When Canadian General Electric reorganized its Barrie small appliance plant, an example you used previously, it went from 26 to seven products and really three. Are those new jobs? Those are the same people working in the same plant, although there were 1,100 of them before and there were 450 at the time of the closure. Some of them were making products they had not previously made, and they were not making products they used to make.

Mr. Ferraro: Quite simply, what I am trying to get at is this: has there been no investment in the electrical industry--appliances or light appliances, whatever--that created new jobs in Canada or in Ontario in the last 10 years?

Mr. Barry: The only significant investment that Canadian General Electric has made as a corporation, to which Mr. Mackenzie has referred, has been the Camco plant in Hamilton, where it put in considerable sums of money. If you take the rationalized production between Montreal, Weston, Hamilton and London, there are now fewer jobs in place in Hamilton. Yes, there was investment in Hamilton, but they have closed the other plants.

Mr. Turk: There is a lot of investment in new technology, but most of it has been labour-replacing technology.

Mr. Barry: That is right.

Miss Stephenson: Is the figure not something in the order of a six per cent decrease in manufacturing jobs in a decade?

Mr. Mackenzie: It is down to about 22 or 21 per cent now.

Miss Stephenson: It was about 28 or 29 in the total of employment in Canada at the beginning of this decade, as far as I can recall, and I think it is down, as Bob said, to about 22. I think the decrease in the percentage of jobs in manufacturing as compared to 100 per cent of all the employment in Canada has been about six per cent in the area of manufacturing.

Mr. Mackenzie: What is even scarier is that the experts in the new technology we have tell us it can go anywhere. I have heard figures as low as eight and as high as 12 per cent within 10 years.

Miss Stephenson: Further reductions.

Mr. Chairman: I take it your argument suggests, using CGE as an example, that this concept can be reversed or changed. I keep looking at paragraph 3 on page 9 of your brief. You say, "with the adaptability of microelectronic technology, long production runs may no longer be as necessary for efficient production." So what CGE has been doing, you are suggesting, may not be relevant in the future.

Mr. Turk: It is relevant for them for other reasons; that is, the advantage to the corporation of world product mandating and an international division of labour. There are two big advantages.

One big advantage is that they are much less vulnerable to the decisions of the host government in whatever country they are producing. When Canadian General Electric manufactured all the small appliances for the Canadian market in Barrie, if the Ontario government or the federal government passed some policy that CGE did not like, nevertheless, because it was dependent on the Canadian market, its alternatives were limited.

Now, where it has a world product mandate it can just lift that mandate from Toronto or wherever it is to Brazil, Singapore or wherever in response. In other words, this eliminates or markedly reduces its dependence on the domestic economy and hence its vulnerability to the decisions of provincial or federal governments. That is one big advantage totally apart from the economies of scale.

We are saying you are right; the new technologies mean that the clustering of production in order to attain economies of scale is no longer essential. If you look in the corporate engineering literature, they have been making that observation for some years now. On the other hand, there is a host of other reasons why moving to world mandates and locating the production of a given product in a given country is an advantage to them. We do not mean to say it is a disadvantage to them. It is a disadvantage to us, and it is not as necessary for us as it may have been when there was less sophisticated technology.

Mr. Chairman: Undoubtedly they are aware of what is happening. They must be aware of the fact that they would be less vulnerable to nationalistic pressures in various countries if they were to adapt to this and have smaller production runs, and yet they are not doing that.

11:40 a.m.

Mr. Turk: Yes, they are doing that. Dick mentioned the case of Westinghouse, which had all its production in Hamilton, 6,000 people. They began closing down large parts of that operation and moving departments. They moved one to Renfrew, one to Mount Forest, one to Perth. Those are all smaller plants of maybe 200 people, so they are decentralizing their production as the technologies allow them to do that, but they are also reorganizing that production increasingly on a world basis. This is the case in the transportation industry and in the electrical industry. There are hosts of examples of that.

Mr. Barry: The Renfrew plant, for example, is the component manufacturing plant for large turbines and generators and it is almost completely numerically controlled machine-operated. Maximum employment in the plant is about 100 and the company does not envisage it going beyond that, no matter what the production is.

In regard to long production runs and economies of scale, they have simply boxed up these plants. They have moved them, one to Airdrie, Alberta, one to Alliston, one to Mount Forest, but they are small plants. The total work force is much smaller than it was before, yet the company has been able to achieve, by



technology, larger production runs than it had in the past.

Mr. Morin-Strom: I would like to compliment you both on your excellent presentation. It is probably the most comprehensive presentation the committee has heard to this point. You have done an excellent job on the analysis of the various arguments for free trade and some of the problems with those arguments, rather than emphasizing the arguments towards the advantages of a self-reliant strategy.

One thing Jim Taylor has brought up a number of times in questioning witnesses has been international competitiveness and the need for us be internationally competitive. A lot of the free traders have used this as a nice phrase that indicates we have to do some shaking up and changing of policies and various things to put us into a more competitive position. It seems to imply that if we do not become more internationally competitive, we will not proceed to develop the more modern, sophisticated industrial economy we want. Today again Jim brought up the question of how are we going to be able to get a more sophisticated industrial economy.

It appears from your presentation that Canada's problem is that right now we are heavily competitive in the areas of resource industries and fabricated materials but in the areas of high value-added products and manufactured end goods, those products requiring a lot of research and development and more sophisticated training, research and education, we have a severe deficit.

It seems to me the direction we are going to go in economic policy may involve a question of whether we are going to try to gear our economy to move more into those kinds of products by emphasizing the development of some industries that will be more value-added, more sophisticated and, we hope, world-competitive, or whether, under a freer trade scenario, we are going to go towards further exploitation of our resources and of our lower-scale manufacturing.

Do you see one of the crucial economic policy issues as being which policy will encourage us to become internationally competitive in sophisticated products?

Mr. Turk: Actually, we are proposing an alternative to the two you have outlined, at least if I understood your question. From our point of view, the game of international competitiveness is a loser's game for most Canadians. It is a winner's game for the big and powerful corporations, but a loser's game for the small corporations, even though John Bulloch and others who may appear before you will be among the proponents of free trade. The historical evidence is pretty clear. As one moves toward deregulation, as one looks at what has happened as a result of heightened international competition, which has grown dramatically in the last 10 years, it is the very big and powerful who gain.

Having international competitors always means--and we tried to indicate it in our brief--that while we are being compared with workers in the United States, Singapore and Japan, whoever gives

up the most is going to get the business, in both senses of that phrase, because every time we press for stricter health and safety items in a collective agreement, it is pointed out, "In Brazil we can produce that same thing without these restrictions."

I am sure any time the government of Ontario considers plant closing legislation or tougher labour laws, the suggestion is, "In the southern United States we are not encumbered with those kinds of restrictions," and so on. Most of the things working people of Canada value are threatened by that. In the end we can never be competitive with the worst situations in terms of labour costs and so on. However much we reduced our wages, they would always be lower someplace else.

What we are saying is there is no evidence that becoming internationally competitive is going to do any good for Canada, because in the end the principal consumers here are the working people. The more their wages are cut, the more of them are unemployed, the less demand there will be in Canada and the more the economy is going to suffer. It is a bit of a vicious circle.

We are suggesting the way out of that, however, is not to say, "Okay, let us pick a few industries in which we can win and concentrate our resources on those." It is not clear we can be internationally competitive in that sense either. That is what has been said of the high-tech sectors for the last while. It has become the conventional wisdom, looking at the Mitel Corp. and a variety of companies that seem to be clustered in the Ottawa area as good bets for Canada in the future.

Some of us were saying a couple of years ago, "Do not bet on that," and we are sorry to see it is coming true, because to the extent they are successful and develop, and there is a real market for something, then the biggies start moving in and take over. In the end, Mitel cannot compete against AT and T.

Perhaps the most dramatic case was an American corporation called Unimation Inc., which built the most sophisticated and original robots in the United States and was headed by a man named Joseph F. Engelberger, who developed a lot of robotics technology. His corporation was seen as the best in the world. It got to a point at which he had established a sufficient market for his product that Westinghouse, General Electric, Toshiba and several others started moving in and they were able to put up, in research and development, more than his total sales revenue. In the end his only option was to sell out to one of them and he sold to Westinghouse.

We just do not see where, in the end, we have the resources to compete in that world marketplace where decisions are controlled by the big corporations. The third alternative we hold out is looking at getting more access to the Canadian market, which we have been losing. There is a huge market here despite all the evidence. Obviously, there would be transitions in that case too, but if in most of our industries we could get a larger share of the Canadian market, we would have substantially more jobs, whether in automobiles, electrical, tires or whatever.

We are losing that market in the hope that elsewhere in the world we will pick up the share, and yet we are competing against workers and corporations in other countries, all of whom have the same strategy. There is just little evidence we are going to be successful.

11:50 a.m.

Mr. Morin-Strom: In order to emphasize or further develop a more self-reliant economy, I wonder which directions you would prefer with respect to some of the things we are currently doing, and others are doing as well, with regard to content legislation. It seems to be viable and is used commonly around the world. Another area might be the kind of Japanese scenario, with all kinds of nontariff barriers, standards and requirements that effectively shut out foreign exporters of finished products. What do you see as something that in the short term might be a viable type of policy to start the implementing in Canada to give an advantage to Canadian producers?

Mr. Turk: We are saying that at the moment the first step has to be a defensive, and that is not to engage in freer trade with the United States as the federal government looks as though it is moving to do. That is the most immediate concern.

Beyond that, you have mentioned two possibilities. A variety of tools are at the disposal of provincial and federal governments as at least stopgap measures to try to increase the access of Canadian producers to the Canadian market. What ones are suitable depends in part on the sector. One cannot say, "Content legislation is always the best."

One has to have a pretty good understanding of each industry, its history, where its markets are, what the Canadian market is for those products and who has that market, and then develop policy instruments that allow one to get more access to it.

You mentioned two of them; there are others as well. It is misleading and oversimplifying to say, "If we had this or we had that." You are not suggesting that, but I do not think we want to give you an answer saying, "This is what we should go for." It depends on that sector-by-sector understanding.

Miss Stephenson: I would like to know whether anybody knows how strongly the Japanese consumer association is. I have never heard of it, and yet we know in this country the purchasing preference of Canadians is highly motivated by a very free and open society that has permitted competition based, not just on price but also on a whole lot of other things with an open-door policy that has allowed consumers to choose whatever they want.

To my knowledge, in Japan the traditional attitude has been, "If it isn't Japanese, it isn't any good," as far as the consumer is concerned. That attitude is what the government is going to have to try to change if it is even going to begin to cut down on nontariff barriers. That is the prevalent attitude of Japanese



consumers. They will purchase it, and it does not matter what the price is, because they think if it is Japanese it is better than anything else. We do not have that attitude in Canada. That is one of the other difficulties governments have in trying to ensure there is support for Canadian production.

Mr. Turk: That is a fair enough observation, but governments also have to deal with the effects of the massive unemployment we are facing and decreasing living standards in the persistence of--

Miss Stephenson: Sometimes it is easier to try to deal with unemployment than it is to change attitudes.

Mr. Barry: We have not seen any evidence of it in the past while.

Miss Stephenson: There has been a lot of effort.

Mr. Turk: We are talking about ourselves.

Mr. Chairman: It is curious how they have developed that attitude because there was a time when we were young when we had the very opposite attitude towards their products.

Miss Stephenson: We did. However, they have been totally isolationist and self-sufficient, at least in terms of their own consumer products for a period of time. There has been a totally encompassed cocoon as far as the Japanese consumer is concerned.

Mr. Turk: It is a bit of a chicken and egg problem in the sense that--

Miss Stephenson: So is this.

Mr. Turk: We realize that.

Mr. Barry: It also goes beyond consumer goods.

Miss Stephenson: I know that.

Mr. Barry: As an example, in the heavy transformer industry the only way you can bid into Japan is if you have been a successful bidder.

Miss Stephenson: That is right.

Mr. Barry: There are no successful bidders other than Japanese companies.

Miss Stephenson: As you know, there are some situations in Canada where the only way you can bid as a manufacturer or as another kind of businessman is to ensure you have a section of your company in that jurisdiction of Canada. We have the same kinds of nontariff barriers.

Mr. Wiseman: I can agree with many things in your brief. There are some I cannot agree with. I think we ought to take a good look at public ownership. I have met some people in my riding who say that if free trade comes through as it is being talked about, one of the largest industries in eastern Ontario will just be a warehouse. The president of the company would not like to be named, but he told me over the weekend that would be a reality. They would be made in the United States and shipped here.

You mentioned in your brief that you thought more emphasis should be placed on making Canadian goods for the Canadian market. I had another example in my riding where for two reasons a company moved to the United States where it had its parent plant. One was that the hourly wage rate was lower and the other was productivity. The mayor of that town went down to the US to see because he could not believe it. On an hourly basis, they were turning out either four or five more units per shift than they were up here; so they were not only making it on the wages, but also on the productivity.

It is all well and good, and I would like to see our Canadian manufacturers grow and get more of the Canadian market, but how serious is it out there? I have heard, and one reads in the newspapers one thing and another about our competitiveness, not only about the productivity part of it but our wage scales. Are our wage scales that much ahead--I do not mean of Japan, Korea or Taiwan, but of the United States, our closest neighbour?

That is the country with which, as you mention in your brief, 80 per cent of our trade is done. As a layperson, I feel our wages should be quite close in comparison, but it seems we have crawled away ahead and perhaps our productivity has dropped at the same time. Is that a true statement?

Mr. Turk: First, let us deal with wages. A lot depends on where you are talking about in the United States. Take the sun belt, so-called, and the right-to-work states. North Carolina is one of the best examples. North Carolina has the largest amount of manufacturing per capita on a percentage basis of any state in the United States. Three per cent of the work force is organized; it is a right-to-work state and wage levels are very low there.

We do not compete with them, and I hope we never compete with them in terms of wage rates because if we do, there is going to be a substantial decline in the living standard of most working Canadians and hence a decline in our purchasing power and so forth.

In terms of productivity, the single most important determinate of productivity is management decisions with regard to technology and a host of other things, not how hard people work. If a plant can produce five more of whatever it is producing, I would suspect it would be because there has been more of a capital investment in that plant, that there was a corporate decision to put in, to develop in a certain way.

Mr. Wiseman: I think we already know it is just that they have more initiative.

Mr. Turk: There is a whole host of things--how you schedule the work--

Mr. Barry: Productivity really is a management term, because productivity talks about the type and size of the plant, the products that are going to be in there, how those products are going to be produced, how much overhead personnel there is, whether there is automated equipment and whether one is shifting products from this end of the plant to that end of the plant to assemble it. All of those things come into productivity.

Miss Stephenson: Productivity is a measurement of the number of units of input to the number of units of output.

Interjection: That is right.

Miss Stephenson: The input is not just labour input.

Mr. Barry: Of course, that is the point. That is it exactly.

Miss Stephenson: There are the huge capital investment, the investment of organization of the plant, the way in which it is done and all kinds of things.

Mr. Wiseman: The bottom line in being a retailer is what something costs me and what I have to sell it for to make a profit. For whatever reason, whether it is management, excessive wages, lack of productivity or whatever, I perhaps cannot sell that product because of those problems; so I have to buy one that is comparable to do the job it is supposed to do but costs less money. It may be this is what we are running into in our local markets.

Mr. Barry: As a retailer, what would happen with those products, if we go with the free trade you are advocating, is that we will have a loss of jobs here in Canada and those products will be produced either in Taiwan or somewhere else and shipped via the United States or simply produced in the sunbelt states. We are not going to be competitive. One cannot be competitive if there is always somewhere else that is paying lower wages, has an automated plant and all of these things.

12 noon

Mr. Wiseman: I have not been convinced in favour of free trade, but on the other hand, I feel some sectors of manufacturing have been protected, in my opinion, a little more than they should have been and have not put out a product at a reasonable price. I will not name anyone, but I know of a few that because of that--

Miss Stephenson: We know the kind of business you are in; therefore--

Mr. Wiseman: Yes.

Mr. Turk: If we can pursue that example, when the question of productivity is raised, what most people hear is not



productivity in general, but labour productivity, and that--

Miss Stephenson: That is something that has to be clarified, as well.

Mr. Turk: That is right. Except in labour-intensive industries, labour is not the principal or even a major input. In those labour-intensive industries, whether it be garment manufacturing or whatever, the fact is that Canadian production cannot compete in terms of cost with production in Japan. Japan cannot compete in terms of cost with Singapore. Singapore, in turn, cannot compete with production costs in Indonesia, Malaysia or Thailand.

If the conclusion of all that is more and more production should be shifted to Malaysia or Thailand, or that we have to automate it so much that labour becomes an insignificant factor, as has happened in some of the electrical sectors, the cost to us as a country is enormous in terms of lost jobs and lost purchasing power.

It is not immediately clear that nationalization and massive technological innovation in the garment industry which would cut the labour input, would in the end be in the interests of Canadians because of the tremendous costs. The hundreds of thousands of people who earn their living from that industry, directly or indirectly, would largely be gone. The loss of purchasing power and the increased cost to government of unemployment insurance and all of that may well be a far greater cost than a marginal increase in the cost of goods to keep that industry going. Most production is not of that labour-intensive sort, and so that is really not the key issue in most of the industries we would be talking about.

Miss Stephenson: Those realities are going to be a part of our future for quite some time; therefore, what we have to look at is an alternative employment strategy, as well as whatever you call an industrial strategy. One of these days I want somebody to define an industrial strategy for me because I am not sure that after all these years of hearing about it that I know what is meant. I know what you mean, having heard some of your definitions this morning. The difficulty is the definition is not the same in all circumstances, just as the definition of "free or enhanced trade" is not the same in all circumstances; therefore, the bogymen are raised on either side and you have a head-on collision instead of sensible discussion.

Mr. Turk: But if we could leave you with at least one thought; advocates of free trade, except the most ideologically committed, are well aware that the atmosphere for talking about free trade is such that you cannot advocate complete free trade. As one of you pointed out, only Wonnacott and a few others would go that far. They now use the phrase "freer trade" and the federal government now talks about enhanced trade relations.

The point is we are at a juncture now where we can go down one of two roads. The decision you are going to have to make is what is the position of the government of Ontario as to which road

we are going to go down, whatever you call the two roads.

Miss Stephenson: I do not think we are even there yet.

Mr. Turk: Are we going to go down the road toward freer trade, or are we going to go down a road where we look toward developing the Canadian market more and assuring production in Canada?

Mr. Ferraro: Why can you not do both?

Miss Stephenson: They are not mutually--

Mr. Turk: We are suggesting they are mutually exclusive; in fact, the overwhelming evidence would suggest they are mutually exclusive. There is little indication in historical evidence that as Canada has moved down a road toward freer trade, global mandating and so on, we have created jobs in Canada.

Miss Stephenson: That does not mean that--

Mr. Turk: What leads you to think it would happen in the future when it has not happened in the past? All of the forces that have kept it from happening in the past are not only still with us, but are also with us in greater quantities. In every industrial sector there are fewer large corporations dominating the market, so it is relatively hard for a Canadian operation to get part of that elusive world market share. There was less of a problem in the past than there is now. The very reasons that made it difficult for us to grow in the world market in the past make it even more difficult now. There is little indication that we would be able to grow more.

Miss Stephenson: Some of the reasons--because they were not the only reasons.

Mr. Taylor: Just on the same point, we do not have the evidence before us, but I notice the Ontario Federation of Agriculture is coming in this afternoon. There has been a policy, certainly in Ontario, of import replacement in the agricultural commodities, some thrust and success in that direction. I am just pointing out that may be an exception. I do not know.

Mr. Ferraro: I have just one minor point. You talk about historical evidence and you are trying to substantiate it. I agree in large part that we should enhance our local share of the market to Canadians but one thing is obvious as soon as you start. You are saying we cannot compete internationally.

I am not going to start raising the flag or anything but first, I suspect there would be some emotional block to changing Canadians' and Ontarians' minds and, second, the fact remains that the evidence is we can compete. We have to pull up our socks a lot, but when we are exporting to the degree we are today and have since Canada became a reality and when we have one of the highest standards--one can argue perhaps the highest standard of living in the world--historical precedent says we can compete.

Mr. Turk: It is very good you raised that point because there is no more dangerous falsehood than what you began with: the notion of this claim that we cannot compete.

Mr. Ferraro: That is going to tick off a lot of people.

Mr. Turk: Is somehow the modest, humble Canadian once again misjudging his or her ability? I have heard that mentioned a number of times. It is not the point at all. I am glad you have given us the opportunity to clarify that.

When we say we are not able to compete if we move toward freer trade, it is not in any way a comment on the competence or ingenuity of Canadian workers or management. It is a comment that the bulk of production in Canada is controlled by foreign-owned, large, transnational corporations that are going to decide where and how production occurs in their interest. The more free trade we have, the more of a free hand they have in making those decisions.

When we say we are going to have difficulty, we are projecting they are going to relocate production elsewhere because it is in their interest. As we move toward freer trade there is less and less we can do about it as a government at the provincial or federal level.

A good case in point is research and development. Everyone in this room has heard repeatedly about how one of our problems is the lack of research and development activity in Canada, but according to the most recent study done on research and development policies of different governments, the federal and provincial governments in Canada have the most generous research and development policy in the industrialized world and it has not had a marked impact on the amount of research and development activity. The problem has not been our generosity or willingness to help; the problem has been, for a variety of reasons, whatever a government can do is not enough to redirect the decisions of transnational corporations with respect to where they are going to engage in research and development.

We are saying free trade gives us, as people and governments, fewer options in dealing with those corporations. If we give them more options, give up some of the control we presently have, as we would do in the case of free trade, then we are going to be in the situation we have sketched out here. It is not due to any inability on our part but to their power and control.

Mr. Taylor: Just crystallizing those comments, I understand you to say the problem is not that we are unable to compete but that we are increasingly given less opportunity to compete. Would that be a fair summary?

Mr. Turk: My hesitation in giving you a complete "yes" is an argument that free traders have argued, which is that free trade would give us more of an opportunity to compete. It may well be in the abstract that we could compete. Free trade will give us even less of an opportunity to compete.



Mr. Taylor: What you are saying is that even now we have less control over our means of production domestically.

Mr. Turk: That is right.

Mr. Taylor: If that is right, then I conclude that our concern, or the concern you have expressed, is not that we would be unable to compete, but that we would have less opportunity to compete under free trade.

Mr. Turk: No, I do not think that is quite a fair summary of our position. I do not think we will ever be able to compete, or that we would want to be able to compete with the working conditions, wage rates or legislative environment of workers in the sunbelt of the United States, and even more so, workers in Malaysia or Thailand or whatever. We cannot compete in those circumstances, or if we changed wage rates, and working conditions and legislation so we had the same situation as they had, it would be disastrous for us.

What we are saying is decisions governments can make in order to provide jobs, to provide a decent standard of living for people, always run up against decisions of corporations engaging in that production, that control the productive capacity. In every sector there are fewer and fewer, but larger and larger, corporations controlling production. I am sure you are all familiar with the figures for Canada of how much sales or how much profit is made by the largest eight corporations in Canada in every industrial sector. It is a handful in most. Even in retailing, I think the largest eight control 12 or 15 or 20 per cent of all sales and profits.

Given that situation, going down the road to free trade is essentially saying we are giving the large corporations, most of which are not based in Canada, the decisions about what is going to be done in our country, and we are giving up our rights to regulate that. We are giving up policy instruments that we have available, whether they be content legislation, tariffs, "buy Canadian" or "buy Ontario" policies--we are giving that up to big corporations in the hope they are going to locate more production here. We are saying the evidence they are going to decide to locate more production here is not very great. I am sure if any of us were heads of those corporations we would be making similar decisions because, ultimately, those corporate heads are deciding what is going to be most beneficial in the long-run interest of their corporations.

If they can cut costs by moving production to Singapore and Malaysia or wherever, they are going to do that and have done that and will continue to do that. If we make it easier for them, then we are sacrificing our economy and the people of this country.

Mr. Chairman: Gentlemen, I am certain, no matter which way the committee decides, your brief is going to be a well thumbed because you have, both in the brief and in answering questions so thoroughly, met head on some of the arguments we have been hearing in the other direction. We appreciate very much the

thoroughness of your research. It would seem as if you have been following our discussions fairly closely, because it is a very up-to-date brief, and it has been useful to us. Thank you.

Members of the committee, you may be wondering about the document handed to you, marked Chapter 4, Bilateral Trade of the United States, Recommendations and Conclusions. That is the final chapter of the report of the federal committee on star wars and free trade, in so far as it has to do with trade.

Miss Stephenson: SDI and free trade.

Mr. Chairman: SDI and free trade, all right.

Miss Stephenson: Star wars really sounds a little like a comic strip.

Mr. Chairman: Maybe with some merit. In any event, these are the conclusions we have been reading about in the press. We will get you the full report as soon as possible.

You have a memorandum concerning some of the details of travel to Ottawa and back in front of you. If there are any comments on that, perhaps you could have them back to Mr. Arnott by four o'clock today.

The committee recessed at 12:14 p.m.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, AUGUST 26, 1985

Afternoon sitting



SELECT COMMITTEE ON ECONOMIC AFFAIRS

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Polisinelli, C. (Yorkview L) for Mr. Cordiano  
Wiseman, D. J. (Lanark PC) for Mr. McFadden

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Ontario Federation of Agriculture:  
Pelissero, H., President  
Pyke, B., First Vice-President  
Wilkinson, J., Second Vice-President

LEGISLATIVE ASSEMBLY OF ONTARIO  
STANDING COMMITTEE ON ECONOMIC AFFAIRS

Monday, August 26, 1985

The committee resumed at 2:08 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

ONTARIO FEDERATION OF AGRICULTURE

Mr. Chairman: I see a quorum. We have with us representatives of the Ontario Federation of Agriculture. The president of the federation, Harry Pelissero, is in the middle of the three people who are about to give their presentation to us. To his right, as we look at him, is Jack Wilkinson, second vice-president, and to his left, Brigid Pyke, first vice-president. Cecil Bradley is sitting in the first row.

Their presentation has been distributed and they invite members of the committee to interrupt as the presentation is being delivered, if you have questions to ask.

Mr. Pelissero: Thank you, Mr. Chairman. I would take this opportunity to thank the committee for the invitation to appear before you today to talk about free trade, fair trade, or enhanced trade, depending on which terminology we are working with this week. We will try to talk about some of those areas.

I am an egg producer from the Niagara Peninsula involved in a family operation with my youngest brother. I manage to get home on weekends to do some of the farming.

I will let Jack and Brigid introduce themselves when they deal with their specific sections.

I am reading from page 1 on the document. I think probably the best way is if there are any questions, we will attempt to answer those as they arise.

The issue of bilateral trade arrangements with the United States is certainly receiving a lot of discussion and a lot of media attention. Canadian and Ontario producers have been active in international markets for several generations. Long experience has taught us a few lessons about the upside and the downside of world trade. We are happy to share some of what we have learned to date.

The Ontario Federation of Agriculture is a voluntary membership organization consisting of more than 24,000 farm families as well as commodity groups, marketing boards and other agricultural organizations in Ontario. At the national level, the federation is a member of the Canadian Federation of Agriculture.

This organization and farmers in general want to be involved



early in the development of trade policy by partaking in committee hearings such as these. Our investments in land, buildings, machinery and livestock--our livelihoods--are at stake.

In our presentation and the discussion following, we hope to make you aware of the grave concern farmers have about the direction the current trade debate seems to be taking. We welcome your questions.

Stagnant national productivity growth during the 1970s and the particularly severe recession of the early 1980s have encouraged the debate on national economic policy to consider radical change. It has again become fashionable to talk about free trade, and, as I said earlier, fair trade or trade enhancement, depending on the terminology we are using this week. Opening our borders to the United States is regarded by some people as the elixir to cure Canada's economic ills.

We worry that the medicine could prove more harmful than the disease. Nothing in life is free, especially when you are dealing with a neighbour as economically large and politically complex as the United States. Free trade could be a losing strategy for the agrifood sector. Recall for a moment what is at stake, not just for farmers but for all Canadians.

Agriculture and food product exporting from Ontario is big business. The dollar amount of this trade is large and it has grown rapidly. In 1977, the exported value of agrifood products was \$700 million. Eight years later, in 1985, the value of exported products is projected to be \$2.1 billion. This trade performance, contributing as it does to employment, incomes and the balance of payments surplus, is particularly important to Canada and Ontario, given the substantial economic problems the country otherwise faces.

It is important to note that for Canada as a whole the agrifood sector is second only to forestry in terms of contribution to net trade. Equally significant is that agrifood was the only sector to increase trade continuously through the 1981-82 recession. The agrifood trade is our strength. Recent performance gives us cause for confidence. The strength and performance of the sector have been accomplished through the risk-taking, production efficiency and technical innovation of individual farmers.

Currently, 60 per cent, or approximately \$1.3 billion, of Ontario's agrifood sales are into the United States market. In terms of variety, value, proximity and relatively unrestricted access, the United States is clearly our most important opportunity.

What do we sell and what will we continue to sell in the United States market? Other presentations have provided you with detailed answers. In general, it is a diversified array of grocery and beverage products, breeding stock and genetic material, forage and oil seeds, white beans and soybeans and specialty crop products such as maple syrup, honey, blueberries, apples and grains.

The free trade question is a complex and controversial one. The OFA takes no position on the broad nonagricultural case that is being made for various bilateral trade initiatives. As an organization, the OFA does not have, nor has it attempted to reach, a developed position on the overall issue. All that can be said on this score is that over the years we have broadly supported the post-war multilateral trade liberalization undertakings represented by the General Agreement on Tariffs and Trade negotiations.

At this time, I would like to turn the presentation over to Brigid to talk about some commodity-related trade policy issues.

Ms. Pyke: My name is Brigid Pyke and I am partner in a dairy farm in the Thousand Islands and Gananoque area in eastern Ontario.

The first area we have mentioned here under the commodity concerns, in the ones with which you would be familiar because they are operated under supply management programs, is milk, eggs and poultry. As you know, these products are produced under supply management systems and quotas that are under the authority of the national-provincial marketing plans.

When surpluses occur, either planned in the case of skim milk powder or unplanned because we cannot make the supply match the demand automatically all the time, these commodities are exported at a loss on many occasions and funded by producer levies. So the producers themselves are paying to export surpluses to these supply management programs.

Importation is likewise controlled by quota, and that is provided under the GATT rules. When a country opts for supply management, some form of border control goes hand-in-hand with it. The rights of other countries to the domestic market are discussed and negotiated at the time the country opts for supply management in that commodity; they are guaranteed a segment of our market or a certain percentage of our market and they can hold that through the operation of the supply management schemes. That is all discussed at GATT and worked out.

This would probably be a good time to bring to your attention the Ontario Egg Producers' Marketing Board. A page has been submitted to you in addition to our report and it sets out what happens with eggs. About halfway down the page you can see an up-to-date report as of July 20 with the imports to date and what we have exported.

It makes the point that it is controlled for a purpose. I believe we have about 2,300 egg producers who operate under the board here in Canada. Their stability and the operation of their family farms depend on having that degree of control. It would be very simple for a country the size of the United States to swamp our markets in short order and destroy that system.

The grains and oil seeds sector is discussed beginning in the middle of page 5. These commodities are fundamentally on the free market system right now and it is hard to imagine any free

trade initiatives that would make life any easier for anybody in that sector.

Under red meats, beef and pork in North America move essentially on a free trade, nontariff basis. No significant import protection is offered to Canadian producers. Recent United States countervail measures against pork were unjustified, in our view. The burden of the countervail action fell disproportionately on Ontario producers. In this instance, as with beef, we felt both levels of government should have done more to protect domestic producers.

Perhaps it is actions such as the countervail action that was launched in the United States against our pork that bring to mind the term "fairer trade" rather than "free trade." The chloramphenicol issue in pork, the fact that states moved unilaterally to block Canadian pork on that chloramphenicol issue, was widely regarded in the industry and outside as being a red herring and a perfect example of a nontariff barrier.

An example of a different situation in which the same principle is involved is when Ontario acts unilaterally as a province to block the importation of, say, South African wines or whatever. It is the same type of issue, basically. It is hard for producers to deal with trade between the two countries when trade decisions can be made for political reasons that had not been prenegotiated under GATT or whatever, and it certainly reduces our credibility and ability to operate under GATT rules when these kinds of things happen.

In the horticulture industry, in fruits and vegetables there is substantial two-way trade. There is seasonal tariff protection on fresh products--asparagus and strawberries, are those you could perhaps think of--and some on processed products. The tariff structure for these industries was established as a result of the findings of the Canadian Tariff Board after an exhaustive inquiry and it was negotiated with the United States during the period of the Tokyo round. It is not a highly protected structure, but it does protect somewhat. The producers of these crops consider it to be absolutely vital to the continuation of a lot of these crops in Canada.

2:20 p.m.

In summary, it can be seen that in its basics, farmers find great difficulty in seeing what agricultural trade liberalization concessions could usefully or equitably be negotiated by the Canadian government. This has been the problem of farm groups in trying to deal with the free trade issue, not knowing specifically what area people wanted liberalized. It means talking in sector-by-sector general terms.

Many specific issues on nontariff matters do need to be addressed from time to time, concerns such as animal health, use of pesticides and antibiotics, byproduct tariffs, import quotas for commodities under supply management, use of subsidies and so on. There are many other peripheral issues in these commodities that producers would welcome the opportunity to discuss.



There is a simple example in Mr. Wiseman's area. Farmers are worked up about products coming into this country with less than 50 per cent skim milk powder in them, but still a lot of skim milk powder. The GATT agreement uses 50 per cent as a cutoff point. Skim milk powder products are held out, but if you can devise a product with 44 per cent skim milk powder, you can beat the system.

Farmers are interested in talking about such areas but it is difficult to do so under general discussions on free trade.

From here, we pass it over to Jack to deal with the policy issues.

Mr. Wilkinson: My name is Jack Wilkinson. I am a mixed farmer from Lambton county near Sarnia.

The problems of instability in the farming industry are well known, as is the desire of most countries to foster the health and productivity of the agricultural sector. Universally, governments are deeply involved in national agricultural policies aimed at ameliorating the problems of instability and income inadequacy that are persistent features of the farm scene. This is true in the United States as well as in Canada.

The fact of international trade and floating currency exchange rates is itself a major cause of price-income instability for the farm sector. Commodity stabilization and crop insurance programs are needed to be developed or strengthened, not dismantled, if we are going to continue to participate actively in world trade.

We note with concern the picture presented to you by the Ontario Ministry of Agriculture and Food during earlier hearings. We refer to the fact that Ontario suffers a \$1.1-billion deficit in food trade with the rest of the world. It is of particular concern that major items of food imports are fruits, nuts and vegetables such as lettuce and tomatoes.

While it is true that food exports have recently been growing more rapidly than imports, there continues to be an enormous potential for an agriculturally diversified province such as Ontario to supply more of its market requirements from domestic production. We look forward to the current government's vigorous pursuit of an import replacement program.

The agrifood sector is complex. Market opportunities exist for straight-from-harvest, unprocessed produce at one extreme and for microwave-oven-ready, complete low-calorie meals at the other extreme. In the first instance, we are satisfying a basic human need for food; in the second instance, we are serving a lifestyle. Profits are to be had at both ends of the market. Our marketing must be sophisticated enough to make the distinction and turn it to our advantage.

Successful market access and development for agricultural and food products depends much more on research, product innovation, marketing and distribution channels than it does on formal trade agreements. Export market development and research

and financing tools to make it happen we feel to be a much higher priority than some modified trade arrangements with the United States.

The Ontario Federation of Agriculture does not know if the negotiations of a Canada-US trade agreement will proceed or, if it does proceed, what form it will take. We understand these questions are now being explored by Parliament and by the governments of Canada and the provinces. We do not know if such an exercise will prove to be viable outside, but presumably not in conflict with, the multilateral context of the GATT.

We are very concerned as to how the two bilateral arrangements, as well as the GATT agreement, are going to work themselves out. Even though the US is by far the largest trading partner of Ontario and of Canada, we still have the whole context of international trade with which farmers, commodity groups and governments have been dealing in the past. The whole issue of bilateral agreements is of concern to us.

We do want to suggest seriously that it is unlikely to be useful or workable, either from a Canadian or US point of view, to include agriculture as a sector that will be an integral part of bilateral trade negotiations.

Trade concessions that might be asked of Canada in an agricultural sector would likely involve attacking vital and established national agricultural policies--supply management, orderly marketing through the Canadian Wheat Board, stabilization, public investment in transportation infrastructure, horticultural tariffs--because otherwise we have nothing to negotiate away. Such attacks would not be welcomed, to say the least.

Further to this context, there is a general feeling in the farming community that Canadian agriculture has not fared well in the GATT negotiations. With the way the rules have been applied, it is thought the whole structure is to some degree outdated in today's complex world of trade, especially with the great fluctuations of monetary levels in some other countries. It really concerns us greatly that we have given away all we can afford to. In many people's minds, we have given away more than we would have liked to maintain a viable agriculture sector. The next round is not looked on favourably by individuals such as ourselves.

On the other side, what have we to gain from the United States in the way of agricultural access? We suggest very little. It is true that protective actions by the United States against agricultural exports to it are being taken or attempted. Pork producers are being seriously damaged, but actions on these grounds, while they might be invoked unnecessarily and improperly, are of recognized legitimacy.

Countervail and anti-dumping protocols have been negotiated under GATT. Their further development and refinement is possible. They are general and not specifically agricultural rules. They pose difficult problems, especially countervail, as related to agricultural stabilization programs, as we are seeing. These are all matters on which there must be continued discussion and negotiation with the United States.

Our point is, however, that we do not see these issues of countervail, anti-dumping and health protection as integral to a bilateral trade negotiation in a specific agricultural context.

There is a real concern among farmers that in a bilateral trade negotiation it may appear advantageous to Canadian negotiators to trade off important national agricultural policies that the United States might not like the look of in attempting to reach agreement on other matters. We do not believe we could expect a similar result in the opposite direction.

I think that is a concern amongst many people when dealing with such a large political economic entity so close to our borders. It makes it very difficult to think we will win any rounds in negotiations that we have been unable to win in a GATT context.

Before going to the conclusion, I would like to talk about some of the other situations that are of major concern and should be discussed in relation to any trade negotiations, that is, the position Canadian agriculture been put in that is a disadvantage in relation to the US in particular.

There are many crops where, because of licensing, pesticides and fungicides as well as other drugs are available in that country that are not available to our producers. It is very disconcerting that the primary producer does not have the same tools available to him as his trading partners, yet finished produce can move freely across the board. That takes place with many commodities.

An example is onions where sprays that are allowed and used freely in Michigan are banned in Ontario. Their onions move freely across the border. Onion growers in Ontario are put at a competitive disadvantage because they are unable to use the same price structure as far as sprays are concerned. It costs significantly more per acre to grow onions in this country and yet we are moving their products across.

The same situation is true with a toxin situation that took place in 1980 and 1982. Our rates were much different than in the US until they both came into line. It was a government position. I am not saying the government was wrong in its position, but the people who suffered because of it were the farmers. It was not any of the people in between. It was a direct cost to the farming community to store the grain until the Department of National Health and Welfare sorted the situation out. They will never be compensated fully for that. That sort of circumstance goes on and on. There is an incredible list of products where the producers of Canada have been at a disadvantage.

In conclusion, we are troubled by the suggestion that we throw away the rule book that has governed trade development. Why are we fearful? Several recent issues in agritrade suggest that, unlike other human endeavours, the best offence may be a good defence.



2:30 p.m.

To quote the Globe and Mail Report on Business, April 29, 1985, "The US has come to dominate the anti-subsidy movement between 1980 and 1983. Japan launched only one countervailing duty action, while the European Community started six and Canada and Australia eight each. In the same period, 123 US actions were filed."

We might be less concerned if it were a case of those without sin having the right to throw the first stone. However, several recent reports suggest that the US farmer enjoys twice the level of government support compared to his Canadian counterpart.

Beef, pork, sugar, export subsidies and countervail actions are the things which come to mind when the issues of trade and agricultural products are raised.

As we look at current and remember previous agricultural trade disputes, we cannot envisage viable, diversified agricultural production and processing sectors without major supporting national policies. Unless we establish the means to manage our agrifood trade, we leave producers susceptible to being driven out of business by subsidized foreign suppliers and we leave consumers vulnerable to the scarcities and surpluses of the international marketplace.

I think the sugar industry, although much more complex than black and white, shows the circumstances of when it seemed very sensible not to support the sugar beet industry in Ontario. Yet it was not many years later that the prices consumers in this country were paying for sugar were astronomically high. In retrospect, we would probably have acted differently by supporting and producing a strong infrastructure to keep the sugar beet industry going in this country. That case can occur over and over again.

Eisenhower once said, "Farming looks mighty easy when your plough is a pencil and you are a thousand miles from the corn field." Similarly, liberalizing international trade appears to be a straight forward business if all you are looking at is a tariff schedule and a column of net trade figures. The real world of finding, selling into, and holding on to international markets is complicated and not at all like the textbooks.

Market players are driven by national self-interest and governed only slightly by a sense of fair play. The agrifood sector has carved out a piece of that action and we do not intend to see it bargained away. We are realists. We appreciate that there is a cost associated with the array of agricultural policies adopted by the various trading blocks. We are prepared to compete. We have demonstrated that in the past. Fair trade, not free trade, is an acceptable and, more important, an achievable objective.

In closing, free trade has been compared to heaven. Everyone thinks it is a nice place to be, but no one wants to die to get there.

Thank you for the opportunity to exchange ideas today. We will be open to any questions in relation to the previous text or other matters at this time.

Mr. Wiseman: You mention the supply management areas we have right now, such as milk, eggs and poultry. If this free trade were to happen, knowing the price the farmers get south of the border for their milk for example, would that not put a lot of our farmers out of business? Our marketing boards, just to mention those three, would be gone. We would probably be getting two thirds of the price we are now for our milk.

Ms. Pyke: If we use the sheet of paper the egg producers have contributed, the second bottom paragraph here, I think is quite telling. They say the number of independent egg farmers is diminishing and being turned into large diversified enterprises which are basically feed grain based and they are marketing their grains through the chickens, through the eggs.

In Canada our supply management system protects the family farm. I think you can look at any of the supply management commodities and discern that that is true. It has given each one of those 2,300 egg producers a share of the domestic market at a price that returns them the cost of production based on a formula. That system is keeping them in business. You have to ask yourself what is to be gained by taking those 2,300 out and replacing them by three or four monster egg farms à la California or whatever.

It gets to a point where you have to look at the social costs of undoing the family farm structure and asking questions such as what you want done with the land between Toronto and Montreal. It may seem a little melodramatic but when you destroy that family farm structure, then what are left are corporations, and there is no guarantee your price is going to be any cheaper.

If you look at the supply management commodities and compare the price that the farmers get for those commodities to the price they get for commodities that are not under supply management, the consumer is getting a fair deal and it is providing some stability for these people who are in agriculture. Those are not bad things to be doing.

Our supply management systems are studied the world over. They are ridiculed totally in Canada, but if you go to almost any other country, they are studied the world over to see how they could ever have been set up with producer support and with a system that has not been ripping off the consumer. It is very easy to attack them in theory, but when you look at the bottom lines, the price to consumers and the stability it affords the producer, the system is second to none. It just seems a little bit shortsighted to attempt to try to tear that apart without knowing fully what is going to replace it.

Mr. Taylor: I do not think there is any suggestion, certainly not that the committee has heard, that we should pull those supply management systems apart. A decade and a half ago some of us experienced the problems, chaos in the milk industry

and the chicken and egg industries, the farm votes, Judge Little and his reports and so on. If we are talking about eggs and the formation of these supply management boards and systems, if it is of any help, in what we have heard so far there has been no suggestion that any bilateral trade discussions would include disassembling those organizations.

Mr. Wiseman: But if you had free trade--

Mr. Taylor: Free trade is simply a notion.

Mr. Wiseman: Are they leaving agriculture alone?

Miss Stephenson: That has been the suggestion of some of the enthusiasts for enhanced trade, that the agricultural sector be exempted.

Mr. Taylor: Some of the lowest tariffs are in the agricultural industry.

Miss Stephenson: Yes, in the agricultural area.

Ms. Pyke: We have taken on a certain level of paranoia, I do not doubt that, but it has been earned. We have earned our stripes.

Mr. Pelissero: I just want to respond by saying that there is no question about the provincial committee's perspective or even about the federal government's perspective, but we are worried about the United States' perspective. When you talk about the fishing industry in the Maritimes, and they start including unemployment insurance commission payments as being an unfair subsidization or unfair competition to the Americans, then the paranoia is earned. I am not questioning it from our side. There is also what they have done to the pork industry as well.

The point was raised that in GATT negotiations, from the farming community's perspective, we have lost out on every negotiation in terms of what it does to the primary producer. So we do not really have a great deal of confidence if we start getting into bilateral negotiations with the United States and they start saying: "We will take some of that British Columbia lumber, if you kind of ease off on either a stabilization program or get some of those marketing boards to change some of their structures a bit."

Basically, the position that the Canadian Federation of Agriculture took before the federal committee, and I guess what we are saying here, is: "Thanks, but no thanks. If you want to talk about enhanced trade, free trade, fairer trade, whatever you want to call it, you can leave agriculture out because, according to our analysis, we do not have anything to bargain away."

2:40 p.m.



Mr. Taylor: I would surmise that you would be left out, realistically speaking. I am not criticizing your paranoia, if that is what you call it. I was trying to be somewhat comforting because you are an exceptional industry, certainly in Ontario. If you compare yourself with other sectors, you are part of our economic system, but I would say you have made the sacrifices already, from what I understand of the farm community.

Mr. Wilkinson: I think what is a concern in this is, seeing that Ontario has a trade deficit agriculturally of \$1.1 billion, approximately a quarter in deficit position, it has been a long-standing position of the previous government, as well as this government--not so long standing--that we do something to displace imports.

There are a number of commodity producers in this province and country who feel they need greater protection than they currently have. I think it becomes a very concerning situation from our perspective. Just what will it mean if the discussion of free trade gets really revved up? We may be left out of that, but will there be a ripple effect for any producing groups, or the agriculture sector in general, which bid for more protection when we have governments sitting down and negotiating bilateral trade agreements? Agriculture may be left out in this context, but if producers want further protection in future, will they get it under the terms of that type of discussion? I think that is a concern as well.

Miss Stephenson: That will happen if the framework that is negotiated is indeed appropriate and permits re-entry into discussion in that kind of circumstance. One thing I think has been a concern to all of us has been what appears to be unjustified countervail intervention against agricultural products within the United States. There has to be some way in which we can try to ensure that does not happen. Whatever is discussed, it seems to me the framework has to provide security for the access you already have.

Mr. Pelissero: Picking up on that point, with respect to the chloramphenicol issue, a number of the midwest states imposed a nontariff barrier on the pork going south.

Miss Stephenson: Did we not have a little stilbestrol incident here as far as cattle were concerned?

Mr. Pelissero: However, the corn producers' association makes the point a hog is nothing more than X number of bushels of corn, so they are investigating now what corn comes into Canada, as Mr. Wilkinson was saying, with respect to chemicals or fertilizers that are available to American producers and not available to Canadian producers.

Maybe we should try something the other way with respect to a nontariff barrier, either on a provincial or federal basis, for corn coming in. If it gets down into the trenches, when we start fighting we have to make sure we have our research and ammunition in place as well, because the governors thought nothing of

unilateral action. Furthermore, they bowed strictly to political pressure. It had nothing to do with economics and very little to do with a health concern.

I guess that is what Mr. Wilkinson was pointing out when you start talking about two or three steps down the road in bilateral negotiations. He also raised the point about what it is going to mean in GATT negotiations. Under GATT you can work towards satisfying your domestic needs without interfering with any other negotiations. That is where the supply management commodities come in. They are not fearful, to a degree, of an excess number of imports.

Mr. Chairman: If I might comment, I think several of the witnesses who are in favour of freer trade have talked about how to approach it. While they say you must have a bottom line of things you are not seriously going to give away, however, you should approach it with a view that everything is at issue. According to their criteria, we would end up discussing these things with the United States.

Mr. Mackenzie: I think my concern is that we just cannot say agriculture is going to be excluded because that really requires an article of faith on our part that it will not be one of the things the United States will be taking a look at in negotiations, for any number of reasons.

You make the comment, "We look forward to the current government's vigorous pursuit of an import replacement program." Can I ask if you would consider that as a viable policy in more than just agriculture? It has been proposed by other witnesses before this committee that some form of industrial strategy is needed before we get too locked up in the whole free trade argument. What kind of strategy should it be and does that include things such as content legislation or import replacement in an effort to keep some of the Canadian markets?

I recognize that there may be a bit of a difference here, because it may be that through the imports you can buy machinery or equipment more cheaply than you could otherwise, but it may or may not be a necessary part of an overall strategy.

Mr. Pelissero: I think it would have to be a little bit of both. If you talk about import replacements, then you are talking about programs such as the Board of Industrial Leadership and Development program we had to encourage producers to erect storage facilities so there would be not only a longer shelf life but also more of the product on the market. That impacts on the processing point of view as well. So it is fingers together; it is not just dealing with simply growing more apples or more tomatoes. If you do not have an infrastructure of related industries, then it is not going to be successful.

Concerning whether we should look at more import replacement when it comes to cars or clothing, I do not know. I do not have a simple answer for that. I can only speak with a certain amount of expertise in the agriculture industry.

Mr. Taylor: I would surmise that you would be left out, realistically speaking. I am not criticizing your paranoia, if that is what you call it. I was trying to be somewhat comforting because you are an exceptional industry, certainly in Ontario. If you compare yourself with other sectors, you are part of our economic system, but I would say you have made the sacrifices already, from what I understand of the farm community.

Mr. Wilkinson: I think what is a concern in this is, seeing that Ontario has a trade deficit agriculturally of \$1.1 billion, approximately a quarter in deficit position, it has been a long-standing position of the previous government, as well as this government--not so long standing--that we do something to displace imports.

There are a number of commodity producers in this province and country who feel they need greater protection than they currently have. I think it becomes a very concerning situation from our perspective. Just what will it mean if the discussion of free trade gets really revved up? We may be left out of that, but will there be a ripple effect for any producing groups, or the agriculture sector in general, which bid for more protection when we have governments sitting down and negotiating bilateral trade agreements? Agriculture may be left out in this context, but if producers want further protection in future, will they get it under the terms of that type of discussion? I think that is a concern as well.

Miss Stephenson: That will happen if the framework that is negotiated is indeed appropriate and permits re-entry into discussion in that kind of circumstance. One thing I think has been a concern to all of us has been what appears to be unjustified countervail intervention against agricultural products within the United States. There has to be some way in which we can try to ensure that does not happen. Whatever is discussed, it seems to me the framework has to provide security for the access you already have.

Mr. Pelissero: Picking up on that point, with respect to the chloramphenicol issue, a number of the midwest states imposed a nontariff barrier on the pork going south.

Miss Stephenson: Did we not have a little stilbestrol incident here as far as cattle were concerned?

Mr. Pelissero: However, the corn producers' association makes the point a hog is nothing more than X number of bushels of corn, so they are investigating now what corn comes into Canada, as Mr. Wilkinson was saying, with respect to chemicals or fertilizers that are available to American producers and not available to Canadian producers.

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Mr. Wilkinson: One thing I find extremely difficult to understand is how you go into a room to negotiate anything when there is not a defined long-term strategy. I think that in particular is what makes the agriculture situation somewhat more fearful. If we knew up front what the Canadian and Ontario strategies were as far as long-term agriculture is concerned, laid out in some degree of detail, then we would have something on which to judge what was being given away or whether anything was being given away. Instead, in a lot of areas we are working in the dark. We do not know what the long-term strategy in agriculture is for Ontario. We have never really seen a document, other than--

Miss Stephenson: Do you have one?

Mr. Wilkinson: I personally do.

Miss Stephenson: No. Does the Ontario Federation of Agriculture have one?

Mr. Wilkinson: In the context, to some degree, where possible, of fulfilling our market. I find it very difficult to accept, with the diversification of weather that we have in this province, the fact that we import one quarter of our goods in here. It is obvious that we do not drink that much orange juice and eat that many tangerines. It is just impossible to have 25 per cent of our total food bill in that deficit position. Within that context, how do you negotiate?

It will be dragged in. There is no conceivable way, in my mind, that when you sit down to divide up a chunk of an economic pie other than agriculture there is not going to be a discussion of a tradeoff with agricultural goods when it gets down to the serious negotiating, even if it is just an agreement that you will not have any more access to our market than you currently do or whatever the case may be.

I do not think it is in the context of a closed-door negotiating room that you should build an agricultural strategy for this province and this country of what you cannot do, because if you do that you are going to injure our market in this state and we will not let that happen, so therefore we make an agreement that no more whatever comes in here. That is a concern. If it were all on the table and we knew where we were going, it would be much easier to deal with a lot of these issues.

Mr. Mackenzie: That position is one put not only by the Ontario Federation of Agriculture, but there are also a number of others that feel very strongly that what we are lacking is some kind of overall strategy in the province for just exactly what we want to do and what our goals are. That is what has led to the whole question of import replacement in other areas as well as the argument you certainly make for it.

Mr. Ferraro: Mr. Chairman, a good part of the problem with this vacuum that seems to exist as far as strategy is concerned is being the mouse, if you compare Canada and the United States, we really do not know where the hell the elephant is coming from yet. I do not think they have said: "Yes, we want free

trade, Canada. Yes, we want General Agreement on Tariffs and Trade liberalization. Yes, we want both." In fact, as the Prime Minister said on the weekend, it may say to Canada: "Go fly a kite. You are pussy-footing around."

Would you agree that part of the problem, perhaps, is that we do not know exactly how tough the United States is going to get?

Mr. Pelissero: I do not think we should be basing either provincial or national decisions to any great extent on what the United States is going to do. We have to make some bottom-line decisions as a country--

Mr. Ferraro: I agree.

2:50 p.m.

Mr. Pelissero: --and say, "Okay, if we said originally that we were going to allow only a certain amount of poundage of beef to come in from the Irish," they were very smart. They said, "You stop our beef from coming in and we will stop your honey, we will stop your maple syrup, we will stop other exports." They went right across the country and said, "We will pick certain sections." We basically felt we did a good job of negotiating by saying we were going to accept up to 50 per cent less than what they were originally going to ship in.

We have to make a decision and there is some cost to that. We have to make a decision as a province and a country about what we want to do, regardless of what has happened. I know no man is an island, or no country is an island, but we have to make some decisions and we have to stick by them. It is the same with pork and the countervail situation. Some tough decisions have to be made.

Mr. Ferraro: There is no question. I agree with you completely that we have to have some policy. What I am suggesting is, because we are so dependent on the United States right now, in order to make a reasonable decision for all parties concerned, not only in agriculture, we have to know exactly where the United States is coming from. I am not sure at this juncture we know how difficult they are going to be. Whatever decision we make, we are going to have to weigh it all together.

Mr. Pelissero: I do not want to drag star wars into the committee's proceedings, but I was watching with a good deal of interest because they combined star wars and free trade in the same committee on a national basis. I was interested in the submissions by individuals who claimed there is not going to be the job creation we once thought. All of a sudden we seem to be backtracking. We are not embracing it with such open arms any more.

It may be the same way when you start talking about agricultural policies. You only have to look to the United States. Sure, there are some droughts in the United States, as we have in Canada, but they are predicting a bumper crop, as we are in Canada as well.



They are out selling their product. They have announced a \$2-billion, payment-in-kind export program similar to their payment-in-kind domestic program. There is \$2 billion that the US government, which wants free trade, fair trade or enhanced trade, is looking at to support its industry. They will say that is not open for discussion or scrutiny. If we are waiting for direction from the United States and we are only going to be reactionary rather than proactionary, we are never going to do anything. We will always be the mouse.

Mr. Wilkinson: It would be my feeling, if I were in the United States doing the negotiating, that I would never give away more than I intend to gain. Otherwise, why would you sit in the room to negotiate?

It would make sense in that context that we have to be very clear about what position we are going to take as a country as well as a province. They are not going to give jobs to Canada if they can help it. They are not going to give away production to Canada when they have a Midwest lobby on the farm perspective that is mammoth. They have economic problems there that are huge, probably larger in some contexts. Ours are very severe but theirs are extremely severe.

They will do everything within their power to enhance the movement of their product out of the country. That is entailed by their announcement of their export program. They have made it very clear, as an example, that they are going to go after the international grain market vigorously. They feel that in the last few years they have lost traditional trading partners to the Canadian Wheat Board in sales of wheat and small grains and they are going to go after those vigorously and get them back, basically at any cost. The government is willing to do that.

With the countervail actions they have brought into play, the number they have, by using the game book they can put a great deal of pressure on trade without entering into a bilateral negotiation. If they wish to stonewall on any one commodity by picking some segment that makes no sense to us, they can. In particular, with the countervail on pork, the land tax rebate in Ontario was included in the negotiations for the countervail.

As farmers and as an organization, we have always considered that the reason for that rebate on education tax to the Ontario farmer was because of an unfair tax structure that existed in the farming community in relationship to education tax on productive value asset, as in land and buildings. There was a justifiable reason why that rebate should be there. Yet those things are finding their way into countervail. The sky is the limit.

As Brigid asked, "Will the Ontario health insurance plan be in the next one?" In the example Harry gave of the fishermen on the east coast, unemployment insurance payments were added in. There is no way, if they are going to use those rules, we are going to win, unless a very strong position is taken by provincial governments, as well as the Canadian government, to say we will not stand for that sort of behaviour. It is a fine line.

Mr. Ferraro: Let us pursue that. You stopped short. We take a very strong position. What reaction could the United States have? They could say they disagree with us and they are going to cut us off completely.

What I am trying to get at is how tough can Ontario and Canada be? Let us take Ontario for a minute. In our agricultural sector, in reality, how tough can we be with the United States?

Mr. Pelissero: It depends on the value of the American dollar.

Mr. Ferraro: To some degree.

Mr. Pelissero: Not some degree, a major degree. A lot of the pork was going into the United States because of the value of the American dollar. If that dollar was to change by 20 cents, we would not have to be talking about enhanced trade with the United States; they would be throwing up all kinds of protectionist barriers to make sure it did not go the other way.

Mr. Ferraro: Let us take today's scenario. If push came to shove, who would win?

Mr. Pelissero: If you included agriculture in the negotiations?

Mr. Ferraro: That is what I am talking about.

Mr. Pelissero: Then Ontario and Canada agriculture would lose.

Mr. Ferraro: I am getting a reinforcement that we have to know the game plan of the opposition before we can go into the game.

Mr. Pelissero: As you pointed out, they may not even be willing to talk and we may be spinning our wheels both nationally and provincially when they decide--

Mr. Ferraro: Which brings us back to square one. How can we have an appropriate strategy to deal with it when there are so many hypotheticals?

Mr. Pelissero: What we find very frustrating as an organization of farmers is that we end up letting the United States or any other country dictate our domestic policy because of their policy or proposed reaction to what we are going to be doing. I do not think we should do that.

Mr. Ferraro: Politicians share the same frustration, I can assure you.

Mr. Taylor: On a point of clarification: It strikes me we may be discussing two different strategies. As I understand the Ontario Federation of Agriculture, you are talking about an agricultural policy provincially and federally, and a strategy presumably to implement that policy or to maintain that policy so

it is not adversely affected. Would that be correct? That may be different from the strategy our member has been referring to with regard to strategy of trade negotiations.

This has concerned me. Mr. Ferraro, were you talking about strategy in terms of our negotiations or our overall agricultural policy?

Mr. Ferraro: Overall agricultural.

Mr. Taylor: Fundamentally, I guess we should determine whether or not we should be self-reliant in our food supply. I would think that is pretty basic. You mentioned the sugar beet industry. Should we have a sugar beet industry? If the policy is to have one, then should we ensure that 25 per cent of our sugar supplies should be domestic? If you decide that as a policy, then you make sure that policy is implemented and protected so that it is not undermined. Is that the type of thing you are talking about?

I appreciate the concern of the delegation here and the paranoia, if I can put it that way, about what response you make to different positions adopted by people when you do not know whether tomorrow you are going to be a statistic or a tradeoff.

Mr. Chairman: We have been working on supplementaries for quite a while but perhaps all three members of the federation want to speak to that and you could decide among yourselves.

Mr. Wilkinson: Just one comment on who would lose when it came to the push-shove situation. Harry made his comment and I agree with that. The only way we can judge it is in how we fared in past circumstances.

3 p.m.

If the Canadian government took a different approach to GATT, put a different type of importance on agriculture and went into those negotiations intent on winning instead of trading off agriculture, who knows what the future decisions would be. But we judge that if we came up to another round of GATT or it came to a treaty discussion, we feel we would lose on past performance.

The reason is we have never placed significant importance on the agricultural sector in Canada. I think it has been taken for granted and it has been assumed it will survive regardless of what happens to it. On occasion governments support it and on occasion they choose not to support it to any great extent.

The degree of support given to Canadian producers in comparison to those in the United States and the European Community, which are major trading partners when it comes to food coming into this country, has shown in black and white that our level of support in Canada is significantly below that of both of them. Therefore, a farmer in Ontario has to get more net income from the food he sells than do the farmers in those other two groups.

How the hell do you sit down in trade negotiations where you



are both getting the same price for the product--

Miss Stephenson: Countervail.

Mr. Wilkinson: That action was filed in the United States with US judges in a US court.

Miss Stephenson: If the facts are that the Canadian farmer is being subsidized less than the American farmer, how can the Americans win on countervail on facts?

Mr. Wilkinson: I think it is the way we pay ours out as well. We have an upfront stabilization program in this country that is there for everyone to see. In relation to pork in the United States, a subsidy level is being paid out on the corn and not on the pork.

Miss Stephenson: That is part of it.

Mr. Wilkinson: I agree.

Miss Stephenson: That is factual information

Mr. Wilkinson: We find it very hard to believe we lost that argument.

Mr. Pelissero: To respond to that, the only way we would ever find out is when the United States files an action. If I understand the countervail process, it has the ability and it did come up to every province to find out every subsidy paid, ranging from unemployment insurance to property tax, etc. The only way we are going to get a chance to look at their books is for the government of Canada or of Ontario--probably the government of Canada--to file a countervail action and then go after them.

Miss Stephenson: Do you really have to file a countervail action?

Mr. Pelissero: Yes.

Miss Stephenson: Is it not possible that the government of Canada could appear or could collect information? You guys keep talking about freedom of information. I thought this was all available in the United States without any difficulty.

Mr. Pelissero: I do not think you would have access to it.

Mr. Wilkinson: The other point is they do not have to show that we have more in this country than they do. All they have to show is that our pork or whatever commodity is subsidized, and as they try to prove that our product coming in has injured their market. It is not so much a matter of their standing inside a glass house throwing stones at themselves as it is of throwing stones at us.

Miss Stephenson: What you are saying is that we have been ineffectual in dealing with the countervail actions or the

actions that have been taken by the United States because we have not as a nation sufficiently defended the positions we have on the basis of factual information.

Mr. Pelissero: Keeping in mind that some of the decisions may be more political than factual.

Mr. Mackenzie: As the steel industry will tell you, it is questionable whether it is worth going through what it has to go through in a dumping situation in trying to make its case.

Miss Stephenson: Do you mean the cost?

Mr. Mackenzie: They tell us it is the cost and the delays.

Mr. Wiseman: Would the federal government not send a representative to fight that case? In the case of pork, would they not try to get that information that subsidizing the grain really subsidizes the end product?

Mr. Pelissero: You are on the defensive with respect to--

Mr. Wilkinson: With pork moving in there--

Mr. Pelissero: If we were to come forward, as I think the Canadian Cattlemen's Association is attempting to do, in launching a countervail action and the federal government was to say, "We will give you all the support we can," then one could attempt to get some facts and figures so one could compare apples and apples rather than apples and oranges, and hear figures about the United States level of support and what it feels is reasonable or unreasonable.

We went there basically defending our position, trying to say why such things as a property tax rebate are generic to all farmers, not just pork producers.

Miss Stephenson: You do not need that. It is an agreement that outlaws countervail for agricultural products.

Mr. Pelissero: Yes, but then you would get all nontariff barriers, such as chloramphenicol, or the pesticide question about what is healthy in one country or one state and what is not healthy in another state. That opens a whole new can of worms, if you will.

Miss Stephenson: You are never going to solve that problem because of the federal food and drug guidelines and protocol for this.

Mr. Pelissero: No, but this is where it came down to more a political decision than a factual decision, particularly when they said: "On live hogs, yes, there is injury. On processed pork, no, there is not." Give them a couple of years and you will have the processing companies down there on the governors' backs and the governors will say, "It is time to launch another countervail action on processed pork."

Miss Stephenson: They will switch the decision that time and go back to farmers and--

Mr. Pelissero: The double whammy for Ontario producers was the fact that we never had a stabilization program in the province, yet we were being charged or penalized because of what other provinces had. The irony of the situation, particularly because of the stabilization program in Quebec, is that Quebec ships mostly processed pork.

Mr. Wilkinson: They ship the live hogs to Ontario.

Mr. Pelissero: That is right. So they enjoyed a stabilization payment there and now they are not going to end up being penalized because they are shipping processed pork.

Mr. Wiseman: Part of the problem of pork--I think I am right but maybe you can tell me--was the fact that we were shipping hogs to Detroit to have them killed because we did not have a modern plant to handle them in Canada. Is that right? They are in the area.

Mr. Wilkinson: There were some live hogs going over and coming back processed.

Mr. Wiseman: They will take all the processed pork we can produce, from what I have heard.

Mr. Pelissero: We would certainly welcome processing pork because it means jobs in Canada. The packers had to put so much money aside because of the amount of processed pork that was going to the United States in case there were found to be injuries. They now have got that money back and they know it is no longer going to be fined or levied against them by sending it into the United States. But to think that the packers are going to increase their price to the producers, it is just not going to happen. They will find other areas where their costs--

Miss Stephenson: This might improve their processing capacity and process more in Ontario.

Mr. Wiseman: Just on the subsidy part, I think you mentioned somewhere in the brief--I glanced through it but could not find it--the subsidy in the United States compared to Ontario. Did you ever figure that out? I know they will not give you the information on certain commodities, but what would it average a farmer there compared to a farmer in Ontario? Have you any idea?

Mr. Bradley: I would perhaps rather not be quoted on this.

Mr. Taylor: We want you on the record.

Mr. Bradley: There have been a lot of studies looking at the question, and the final analysis boils down to the definition of what is industry support and what is not. But some of the more common figures cite something like 12 cents per dollar of realized



net farm income in Canada versus something like 25 to 30 cents in the United States versus something like 35 to 40 cents in the European Community.

Mr. Wiseman: Twice the amount.

Mr. Bradley: It is roughly one cent to two cents to three cents, Canada versus the United States versus the EC. It sounds as though that study had been done by a Canadian.

Mr. Wiseman: When you hear people say we subsidize the farmers so much in this country, it is good to know that we are not subsidizing--

Ms. Pyke: I will get back to the policy of appeasement and whether we should argue with the United States or defend our rights against the United States, or anybody else for that matter, on trade matters when we are the "mouse" or we are so small.

I do not think we have any option. To me that is one of the easiest decisions we have to make. You stay in and fight wherever you think you are right. It is very possible that we can take the decision that was handed down in the states on the pork countervail--we are not in it alone--and ship it right over to the officials of the European Community and they can change a few words and use it verbatim against imports from the United States.

3:10 p.m.

In other words, every time our ox is being gored, the same tactics are being used to gore somebody else, so we should not think it is Canada against the rest, against all our trading partners. The chickens will come home to roost sooner or later, but the whole point of the negotiations should be to try to limit those things, because the farmers are the only ones who lose in these little macho standoffs, for lack of a better term, between trading partners.

Miss Stephenson: We see some macho standoffs between the European Community and Canada as well.

Ms. Pyke: Sure we do.

Miss Stephenson: They are not particularly helpful. What you are suggesting is that we play juggle the ball.

Ms. Pyke: If we are right, we stand. You know what is going to happen under a policy of appeasement where you just buckle under. That threat against our blueberries and maple syrup and honey and whatever else was just a threat. The reason the Canadian government did not jump in there is because it took the "risk" or it thought the beef situation was going to die down.

It is going to become less of a problem because this beef was coming out of the dairy herds. They were trying to control their dairy production. The culled cows were going and that aggravated the problem. They made a judgement that we would sit this out; this beef would go away by itself to a certain extent

after a while.

That, to me, is the politics of appeasement. You do not get away with it in the long run.

Miss Stephenson: May I change the subject completely?

Mr. Chairman: I have a whole list of people who want to ask questions.

Miss Stephenson: All right, fine.

Mr. Chairman: Does the member for Lanark have a new question?

Mr. Wiseman: No, not right now.

Mr. Chairman: The member for Sault Ste. Marie?

Mr. Morin-Strom: First, I would like to make a comment on Mr. Taylor's assurances to you concerning what this committee has heard in previous addresses. I have probably heard every address so far and my impression of the level of comfort you should have is probably somewhat different from what Mr. Taylor has indicated to you.

Mr. Taylor: You were at a funeral, I think, when the Communists were up.

Mr. Morin-Strom: I am sorry, I missed the Communist Party.

Interjection: You missed one hour of the Communist Party.

Mr. Morin-Strom: I am sorry, I forgot that one.

The groups that have said agriculture should be given exemptions have been the ones that have felt strongest with respect to being for free trade. They have recognized the complaints and objections the Ontario Federation of Agriculture and the Canadian Federation of Agriculture have had about including agriculture as a possible tradeoff in trade negotiations. It has generally been recognized by the strong free traders that there is no way we are going to go anywhere if we do not give an absolute exemption to the agricultural industry.

The question of where negotiations will go and whether agriculture will be included has been raised by a number of people at these sessions. It is very important that you are before us stating your case quite clearly.

One of the things very strong free traders have not indicated is what specifically Canada will be giving up in trade negotiations with the United States. Their emphasis is on where there are export opportunities. There is a lack of emphasis on looking at industries that are vulnerable to a freer trade agreement, on what the US perspective is on changes in Canadian policy, on nontariff barriers and on government action.

If indications on countervail and statements we have heard from the US government on marketing boards and other Canadian policies are any suggestion, one would have to be concerned that agriculture will be one of the topics of discussion, particularly from the US perspective. Our perspective may be that we want to exclude agriculture but it may be completely the other way around from the US perspective.

The ultimate objective of the very strong free traders--the economists who look at it from a philosophical, idealistic point of view--would be a wide open, integrated economy between the US and Canada so that comparative advantage can be worked to its fullest.

We have heard from Ontario Ministry of Agriculture and Food officials that Ontario is at a comparative disadvantage because of our climatic position relative to the United States. We have a natural disadvantage in trying to compete on a wide-open scale with the Americans. I wonder what you think the consequences might be in the long run if the ultimate result, 15 or 20 years down the road, was a wide-open, integrated economy with no restrictions whatsoever on trade in agricultural products. Would it be the utter devastation of Ontario agriculture?

Mr. Pelissero: As Brigid said, you could raise a question, not only about what you would do with the land between Toronto and Montreal, but what would you do with the people involved in that land in actual farming? You could kiss it goodbye. As for economies of scale, whether it is in agriculture or car manufacturing, they do not have to gear up less than 10 per cent to meet all we need in Canada.

There is more to defending our agricultural policies than from an economist's point of view about the bottom line. There has to be some social cost to it. That is where the decision comes in. You may say we may not want to include it as part of the discussion when you come to the table with the United States. If they say, "You are going to include it," then the next step should be for whoever is doing the negotiating to say: "End of discussion. We are going home. Thank you very much."

If we do not have the guts to do that, either provincially or federally, then we may as well throw the borders open right now and save the next 15 years of haggling. If we say, on the one hand we do not want it included and the United States says, "Before we talk, we want the dispute settled--i.e. the lumber industry in British Columbia; before we take a look at this window of opportunity that exists, we had better resolve this stumpage fee," if everybody sitting around this room and certain sectors of the economy and provincial and federal officials are saying, "We do not see it as a window of opportunity; we see it as a door that should be left shut permanently," then the question is, who has been making the overtures in terms of wanting to discuss free trade or fair trade? If we are not making an overture from an agricultural perspective, who is and for what reason?

Ms. Pyke: I am just looking at the crystal ball. My



opinion has to be off the record, too. In 20 years, if, for all intents and purposes, we were a state of the United States, it is infinitely cheaper to produce an awful lot of things in the southern states.

I can remember when we were first married in 1966. We were driving to Florida and we just got inside the border and went to visit a farm that was advertised there. We were milking 150 cows at a time, and they were milking 7,000, with 1,000 Jerseys to keep the test of the milk up. That is not at all unusual. There is nothing particularly bad about that. I am sure the egg people can tell you there is an egg farmer in California with 30 million birds or whatever. Two of those, placed in Manitoba and trucking both ways, could supply our needs. So the technology is there and the potential is there to concentrate the industry greatly, without looking at anything else. Then you throw in the fact that the tax policies in the two countries can make things an awful lot different, too. We take note of the fact right now, when we are trying to deal with section 31 of the Income Tax Act, that two thirds of the cattle fed in the United States are fed for tax reasons.

That adds a whole new element as to why people are farming. Looking at it in a strictly economic sense, it is not good to look at the way we farm as being the ideal and good, but there is an awful lot that could be much worse. It just boils down to what kind of an industry you want. Basically, you can have just about anything you want. I do not think there is any danger of us starving outright. The food is going to come from someplace, but it would take a severe round out of the family farm.

Our marketing structures favour the family farm, whatever that is defined as. That is ostensibly part of our social policy. Things could be drastically different. It would be a major social upheaval. It is very difficult to say. I am not saying you could take 7,000 cows and run that operation here in Ontario, because they just contract all their feed out of Minute Maid; the Coca-Cola company gives them the pulp out of Minute Maid. They have feed contracting capabilities that we would never have in this climate. You cannot just compare operations and say, "If that happens we would have four farms with 7,000 feeders." It is not that simple. Generally speaking, you would see agricultural production move to the very cheapest place, possibly places without minimum wage. It would drastically move out of the north in any event. Case closed.

Mr. Pelissero: So would the one in four jobs that are related to the agrifood sector.

Ms. Pyke: Sure.

3:20 p.m.

Mr. Wilkinson: To go further with what Ms. Pyke was saying, there are a number of acreage removal programs in the United States. If you have 20 per cent of your land sitting under an acreage removal program, when you go units of scale, it is very cheap to bring that into production because somebody has a market

for you. When you have machinery and technology available, it is very inexpensive to take that extra small percentage of land back in and farm it. That is a very serious problem, because that acreage becomes available at any time, with the whole heat unit thing and everything else.

Our cost of production in this country is not only due to the weather situation but all the imports. Because we basically do not have an industrial strategy per se, there are very few products we buy on the farm that do not come out of the United States. That in itself puts a higher price tag on Canadian production. A John Deere tractor is not as cheap in Canada as it is in the United States. You can just keep working all the way through that system.

The phosphate that comes out of the mines in Florida is not delivered in Ontario more cheaply than 500 miles from the plant down there. You can go on and on with those circumstances that are reasons. To some degree, there are economic and long-term strategies that have increased the price of food to the consumer in this country and that is one reason we are not as competitive.

In some context you could say, "If the borders were all open that would be good for the Canadian farmer." In one vein it would be as far as input costs, but, as Ms. Pyke said, when you go into the tax structure, climatic conditions and everything else, it would slowly undermine the industry.

Miss Stephenson: We will see the true effect is going to be to warm it all up, so if they try to grow anything in Florida, it will be too hot.

Mr. Wilkinson: The same context remains for all the other industrial sectors. I think we would be hard pressed to name commodities that can truly be produced more cheaply in Canada than somewhere else in the world and moved here. Do we want to have 26 million people in this country living on unemployment insurance or welfare?

Interjection.

Mr. Wilkinson: We are not even that any more. There are many instances we can pick in which companies have moved to other countries because of labour costs, etc. We have even become uncompetitive in some lines as far as being, say, hewers of wood and drawers of water because of that sort of strategy. I would be hard pressed to say, if it got down to blow by blow, there would be very many on which we would make a net gain.

Mr. Ferraro: If I could change the venue a bit, you make note in your submission about import replacement in the agricultural sector and the fact we still have a \$1.1-billion deficit as far as agricultural commodities are concerned. We heard the same thing from Clay Switzer and his cohorts. He drew the example that if we could somehow get our people in Ontario to use local grapes, it would be of enormous benefit.

I will throw a little bouquet out here. I rather like some

of the advertising the farm administration did, Good Things Grow in Ontario. It is kind of pleasing; one of the few. Having said that, what suggestions would the OFA have to enhance import replacement? It would appear to me governments are searching for a solution to that. What suggestions would the OFA have?

Mr. Wilkinson: We would make two. One would be on a personal basis. What juice did you have for breakfast this morning?

Mr. Ferraro: A cup of coffee and a donut.

Mr. Wilkinson: Okay. Drink apple or grape juice. It really has to start with people becoming more aware of Canadian and Ontario products. Having said that, we have to make sure there is an infrastructure in place from the processing and retailing end as well, so you can take advantage of that.

Part of it is labelling, the old bugaboo of what is actually a Canadian product, Canadian grown, versus being labelled Canadian grade A. That is a real problem.

It starts off simply in terms of making a conscious decision. I know farmers are guilty of it as well. I attend many farm meetings across the province where they have coffee and doughnuts afterwards. I do not drink coffee or tea, not because I am any more pious than anybody else; I just do not like it. I ask, "Where is the milk?" They say, "We will have to send someone out to get it."

Mr. Ferraro: You stick to booze, do you?

Mr. Pelissero: Yes.

I say, "Come on, guys." I am making the pitch that we should be becoming self-sufficient in industry and we are having farm meetings where we are not even practising what we preach. So we hope within the farming community that is starting to turn around a bit.

As a classic example, I attended a presentation by Ontario Hydro last Thursday afternoon. It was a dry run for their submission to the select committee on energy, I guess. I met Tom Campbell and talked to him beforehand. They flashed a picture of an energy-efficient appliance. It was a refrigerator. They were focusing in on the tag. There was a huge bottle of orange juice and two tubs of margarine. He said, "We had better change that, with some of the agriculture people in here, to a couple of pounds of butter and some apple juice." I said, "Hear, hear."

Miss Stephenson: We make good margarine in Ontario.

Mr. Pelissero: I know. But to keep to the dairy producers, it starts with that. Then the infrastructure--

Miss Stephenson: It uses oil.

Mr. Taylor: We are leaving out tomato juice.



Mr. Pelissero: Okay, tomato juice. We are just becoming very sensitive to Canadian and Ontario products and insisting on them.

Mr. Taylor: You will remember when Frank Drea--

Miss Stephenson: That policy was still in place.

Mr. Taylor: --was Minister of Correctional Services, he introduced tomato and apple juices to our institutions.

Miss Stephenson: That was not the only thing he introduced.

Mr. Pelissero: I would hate to think you are penalizing people in the institutions by forcing them to drink tomato and apple juices to use up the surplus.

Mr. Taylor: In those types of institutions, there is still not the freedom of choice there is in--

Miss Stephenson: That is a fact. One of my friends who is a hospital administrator attempted to do the same thing in an Ontario hospital in a medium-sized town. It is not a huge hospital, but he had a terrible time because the patients did not want to drink apple and tomato juices when they were in hospital. They wanted orange juice because that was a luxury item as far they were concerned. They were luxuriating in hospital, I guess. I do not know. He tried to do the kinds of things which paralleled what Frank had done in the correctional institutions, but they could not be carried out. Again, that is an attitudinal thing.

Mr. Pelissero: Yes.

Miss Stephenson: Do you remember talking about Japanese attitudes?

Mr. Chairman: It may in part be based on a concept, that for some reason or other may have come from the Second World War, that is built into us that we get a better quality of vitamin C from orange and grapefruit juices than we do from some of the other juices.

Miss Stephenson: You can get an equal quality of vitamin C from an ascorbic acid tablet, for heaven's sake.

Mr. Chairman: Yes, it is an entirely incorrect concept, but it has been built into us.

Mr. Wiseman: There is a farmer down our way. I went to his house one night and he was telling me all about the price of dairy products and everything. My brother-in-law, who is a well-known dairy farmer, and some others were there. We sat down at the table after he had ripped us off about the price of dairy products and I nudged my brother-in-law. I looked over and there was margarine all around. I know it probably was produced in Ontario, but as a dairy man I thought he would have had butter on the table.

Mr. Ferraro: Do I understand then that the solution essentially is just to keep advertising?

Mr. Wilkinson: No, I think there is more.

If you decide on an agricultural strategy for a province, then you target areas where you feel there is a market by doing market research and you build an infrastructure. It is of no advantage--

Mr. Ferraro: That all sounds wonderful and exotic.

Mr. Wilkinson: I know, but it is hard work.

Mr. Ferraro: What is infrastructure exactly?

Mr. Wilkinson: It is things such as if you really want to have strawberries or raspberries which can be frozen, you not only take the fresh market out, you work with the Ontario Ministry of Agriculture and Food to develop mechanical harvested varieties so that you can keep the price tag on them down. You pick and breed varieties that can work in areas of this province.

Mr. Ferraro: You are talking about pricing.

3:30 p.m.

Mr. Wilkinson: No, I am just saying basic research first. You work with the grower commodity boards to actually make it happen so that they know there is planned development towards--If they can produce, say, 500 acres, if that is the magic number required for mechanically harvested strawberries, you work with them so that they are willing to do that. Attempts have been made at this, but it is incredibly hard step-by-step work. Everybody has to be assured, no matter what government is in power, that things will not stop. The mandates are developed and they will go at it.

Then you do the vacuum-packing of the strawberries and push them with advertising so they can compete. Well-frozen and well-handled goods grown in Ontario can compete very easily in nutritional value with the strawberries we bring in from the south, which have been picked very green, transported for miles and sprayed every day on the grocery store shelf to keep them looking fresh. Yet people will go in and think they are getting a great deal on those fresh strawberries that have no taste to them.

It is a matter of building the structure, putting the programs in place, having it so every little piece of the puzzle fits together so that when you are done, you have developed the marketing, the research and the processing to make that commodity work. You have to go after it commodity by commodity.

Miss Stephenson: I am reminded of triticale.

Mr. Wilkinson: There will be some failures.

Miss Stephenson: But it is superb grain.

Mr. Wilkinson: I agree.

Miss Stephenson: It can do anything any of the others can do, and where is it? Nowhere.

Mr. Ferraro: What are you talking about?

Miss Stephenson: Triticale.

Mr. Wilkinson: It is a cross between rye and--

Mr. Ferraro: Scotch?

Miss Stephenson: No. Wheat.

Mr. Mackenzie: I want to go back to the challenge from Mr. Ferraro. It is something Ms. Pyke responded to. Can we take on the elephant? What is the use? They are so huge and there are so many things they can do back to us.

Unfortunately, that is part of our problem, our mindset. If we are not going to have both an industrial and economic strategy so we know what we want to do and what our goals are in this country, and if we are not going to have a little bit of national will, we are not going to make these moves.

You struck home with the strawberry story. More than half the large crops most years around Hamilton-Wentworth rot in the field. This year they got a little more of it out only because there happened to be a few more pickers available at the time the berries were coming on. We have not tried to develop that.

I look at my favourite topic, all the pasta my family eats. We have gone from better than 70 per cent of the tomatoes we use canned in Ontario down to less than 30 per cent. Yet we can grow them effectively in this province. Some of that is the loss of the doggoned canning plants that have closed down in Ontario. When you produce the goods, if you do not have access to the supermarkets, which has been a problem in some cases, you have a real problem.

I remember Mel Swart with his cans of tomatoes. We used to laugh at him in the House. Out of 10 different varieties he purchased at two different supermarkets in downtown Toronto, he had to search to find one can that was canned in Ontario. The strategies are not in place, or at least the national will or effort does not seem to be in place, to take it on.

The other comment worth making is that we would not buy the political philosophy of the USSR, for example, just because of its bloody size. We would be willing to take it on. I am not sure we should bow to economic pressure from the US in the same way. It all requires a national direction or policy. I do not think the US will sit down and negotiate with us seriously until it knows we have some goals, targets and a bottom line in our country. It is one of the things we have to think about. Where are we going? I have a hunch there is more at stake than the almost academic



argument over free trade.

Miss Stephenson: I was distressed to understand when we were listening to--I think it was the Retail Council of Canada, but I may be confused--that there seemed to be a concern expressed that the establishment of supply management was an absolute impediment towards increased or enhanced exports of some of our agricultural goods.

I am wondering whether the OFA understands why there would be that kind of philosophy. It seems to me supply management should be able to encompass not just the maintenance of a reasonable return to the producer with an export capability. There seems to be an attitude that we cannot have supply management at the same time as we are attempting to enhance our exports of food.

Ms. Pyke: Without looking at the retail council's--

Miss Stephenson: It may not have been the retail council. It was probably somebody else.

Ms. Pyke: Whoever. In that theory, that by setting up supply management in the country we are just doing ourselves out of all kinds of export markets, what they fail to add is that we are doing ourselves out of export markets that are essentially dumped markets far below our cost of production, and that has been dairy for 20 years solid. There would be no problem for any commodity under supply management to fill any kind of export market at the drop of a hat the minute it materialized at a price at which we could afford to ship. It is that simple.

We have 30 per cent excess capacity in our dairy barn right now. We and any other farmer in Ontario could increase milk practically overnight. The same is true with pork. It takes a little bit of time to get a pig to market or whatever, but essentially we can meet any market that ever materializes on the horizon.

Miss Stephenson: So they are not mutually exclusive.

Mrs. Pyke: No. Their noses might be out of joint because they do not get to see the farmers dump all this stuff on the world market and, like a broker, they get it coming or going, no matter who is losing what. If they are pushing product, they get their take. But the farmer is not buying that garbage any more. If there is not a market out there with a decent price, we do not ship. Case closed.

Miss Stephenson: I have probably maligned the retail council, because it probably had nothing to do with them. But I cannot remember which of the presenters it was who raised this issue. I think it was challenged by Al McLean at that point. He felt there was real concern that we might be talking about the destruction of supply management if we were going with enhanced trade. Surely we do not have to do that. Surely there is capacity to deal with both.

Mr. Chairman: It occurred. I am not sure who the witness

was either.

Mr. Taylor: On that point, the marketing boards have been mentioned a number of times, and in particular those boards that manage the supply of the commodity. It is a system that is recognized and provided for in GATT negotiations, as you know; so the message I have had in sitting on this committee is that trade negotiations per se of whatever kind are not really going to put supply management and our boards in jeopardy. That was the basis of my comment from what I have heard sitting on the committee so far.

Mr. Pelissero: We have another appointment. Farmers, being very frugal, have to appear before the spills bill advisory panel at four o'clock.

Mr. Wiseman: I just want to say I am pleased that the Ontario Federation of Agriculture came in today and that it talked to the federal people. I perhaps do not feel as confident as Jim does. I feel we should be hammering away that agriculture should not be added, and I do not think we should go for free trade anyway. I have great concern for your stabilization programs and others if it were to go.

I know you talked to the right bunch here and you talked to the right bunch in Ottawa, but I hope you do as you often do and get each and every member, whether he is federal or provincial, to make sure he knows what the federation and the farmers are thinking, because many of the farmers depend on you as a group to let the elected officials know. That is what you are doing here today, but I think you might go one step further.

Interjection: And the ministers.

Mr. Wiseman: And the ministers and even the Premier (Mr. Peterson) and the Prime Minister to let them know. I do not feel confident, knowing what they have done to you in the past under the GATT negotiations, where I do agree they have used you as a football for other things, in my opinion, and they have done so for years.

Miss Stephenson: Good luck.

Mr. Chairman: Mr. Ferraro has pointed out that we do have apple juice here. I do not think we have had orange juice or even grapefruit juice.

Thank you very much. It has been spirited. I think you can tell there is a lot of sympathy for your views on the committee.

Before we adjourn, Mr. Arnott has asked me to explain, with regard to the trip to Ottawa, that the committee purchases the tickets and absorbs the cost of the trip. That is part of the budget we have been given. If we want a limousine here Wednesday morning, we must all hand them back in. Is that correct?

Mr. Mackenzie: Mr. Chairman, let me hear again what you said about the tickets. They have normally been supplied to us. Do

you want us to arrange to get them?

Mr. Chairman: You do not need to do anything unless you are going on a different flight. Even then you do not need to do anything. Just tell Mr. Arnott when you want to go.

Mr. Wiseman: Is that Nordair?

Mr. Chairman: Nordair is the flight we will be taking both ways.

The committee adjourned at 3:42 p.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

TUESDAY, AUGUST 27, 1985

Morning sitting



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Docquier, E. G., National Director for Canada, United Steelworkers  
of America

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, August 27, 1985

The committee met at 10:10 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Before Mr. Wiseman walked in, I was going to suggest that the Conservative Party did not have any interest in the workings of this committee, but obviously that is not correct.

This morning we have Mr. Gérard Docquier of the United Steelworkers of America. He has indicated that his remarks will be brief and he has invited us to interrupt if we have something of note to ask him. Without further ado, I would like Mr. Docquier to take over.

UNITED STEELWORKERS OF AMERICA

Mr. Docquier: Mr. Chairman and members of the committee, I have a very brief presentation. You may interrupt and I will do my best to answer your questions. Our union welcomes the opportunity to present its views on the current trade debate to the select committee.

Since Ontario is the home of the major part of the Canadian steel industry and is also Canada's manufacturing heartland, our presentation will make no distinction between the provincial and national economic scenes. Obviously, the role Ontario chooses to play in the development of trade policy will have a profound impact on federal policymaking. Indeed, it is the hope of the United Steelworkers across Canada that the legislators of Ontario will bring some clearheaded common sense to what frequently seems to be a very cloudy scene in Ottawa.

Our union is the largest industrial union in Canada, representing more than 160,000 men and women in mining, basic steel, metal manufacturing, chemicals, many consumer goods industries, service industries and even perfume and diaper makers. More than half of that membership is here in Ontario.

I mention our industrial diversity to underline an obvious point: we cannot help being deeply concerned about the form taken by any major economic realignments. Whatever policy changes, large or small, any government makes in Canada, some group of steelworkers somewhere is affected for better or for worse.

Our diversity also makes us uniquely qualified to participate in the trade debate. No other labour organization so firmly straddles both the primary resource and secondary manufacturing sectors in Canada. Our members live the consequences of the structural imbalances that plague both industrial sectors of our economy.



We are entitled to comment for another important reason: we are an international union with a long tradition of fraternal linkage with our brother and sister steelworkers in the United States. Our internationalism, however, has never stopped us from forcefully arguing the case for an economically independent and self-sufficient Canada. Indeed, we believe the argument against free trade can be pursued in a spirit of rational, enlightened self-interest rather than undue national chauvinism.

Too often it appears as if the trade debate risks being polarized between free trade wrapped in the cloak of internationalism and protectionism wrapped in the cloak of nationalism. The subtleties of the debate are often lost between those false positions.

It is our view that genuine internationalism and national autonomy are both best served by a policy of managed fair trade. It will be difficult to achieve and extremely complex in all its details, but our union's own experience suggests to us it is the only policy avenue that can realistically be followed.

All of you are aware of the profound crisis of the American steel industry. The devastation of the industry in large parts of Ohio and Pennsylvania in particular is horrifying. No doubt you are equally aware of the active campaign for protectionist measures which the American steel industry, in conjunction with our union, has pursued before Congress and the United States International Trade Commission.

While President Reagan rejected last summer's ITC proposal, which flowed from Bethlehem Steel Corp.'s petition for five-year quotas on carbon and alloy steel products, at least two steel quota bills which propose to limit steel imports to 15 per cent of the US market are before Congress.

Quite simply, the message is that considerable economic, political and social pressures remain on the administration and Congress to take restrictive action against imports. The same message is increasingly brought to bear on American politicians by US fishermen, farmers, lumbermen and countless other groups.

The Canadian section of our union has been equally determined in its lobbying efforts to protect Canadian steel jobs by maintaining the current Canadian share of the US market. In conjunction with the domestic steel industry and the federal government, we argued that Canadian steel functioned very differently from offshore imports. We are fair traders, not dumpers, and we have not set ludicrous cost advantages by paying slave-labour wages. We argued that the integration of the two steel industries would be upset by new protectionist quotas and pointed out that for every dollar of Canadian steel exported to the United States, our steel industry imports \$1.25 worth of inputs in the form of US materials or equipment.

While our position was maintained in last year's skirmish over the Bethlehem Steel petition, several lessons emerged from the exercise. First, it feels like a very temporary victory. As we have commented, the protectionist movement in the United States is gaining strength, whatever the ideological bent of the White House.

Second, our own union's apparent conflict between the interests of its American and its Canadian members was dissolved in the realization we were speaking the same language on both sides of the border: that our members' jobs could be protected only by a regime of negotiated or managed trade arrangements.

Third, whatever short-term advantages our industry would enjoy from easier access to the US market would quickly vanish as the tide of offshore imports, especially from the Third World, increased into both the United States and Canada, and as the American industry rationalized and reorganized to take account of Canadian import increases.

I am sure, from this summary, the committee can appreciate the scepticism our union brings to discussions of free trade when you realize we have spent so much time, energy and lobbying resources, in an unusual co-operative effort with employers, simply to maintain market shares we already hold.

The trade debate has understandably become a major preoccupation for our union. Because it is so complex, we have launched a wide-ranging internal discussion to make sure our members are aware of the issues involved. We are distributing for the committee's perusal a document entitled, Where We Stand on Steel Trade, which was originally prepared as a background paper for a special conference of our local unions directly involved in basic steel. It speaks candidly to our own members, and I submit it to you as a concise statement of the position of the Canadian section of the steelworkers union on basic steel trade issues.

10:20 a.m.

From our internal discussions, we have also branched out and developed an ongoing dialogue with the industry and the federal government. We hope this institutionalized dialogue will evolve into, among other things, a coherent trade bargaining position that respects Canadian autonomy, provides maximum protection of steel jobs in Canada and maintains, if not extends, our market share in the United States.

We began this outreach program with a very successful Canadian steel trade conference held in Sault Ste. Marie last May. Several subcommittees were struck and solid research work is proceeding. Indeed, it is precisely solid research work that is lacking in the current trade debate.

We concur completely with the very thoughtful comments provided in the Ontario Federation of Labour's brief on the current academic and polemical arguments advanced for free trade. The various arguments for free trade appear to be a combination of wishful thinking and philosophical predisposition. What we lack are critically minded, sector-by-sector, empirical analyses of the human impact of free or liberalized or enhanced trade.

The research we require must, first and foremost, study the profound changes currently taking place in the industrial labour force. For example, part of our own contribution to the steel trade conference in Sault Ste. Marie was a study we commissioned

to analyse in minute detail what had happened to those workers displaced by the shrinking steel industry in Canada.

That study, Analysis of the Steel Industry Labour Market and the Adjustments Facing its Work Force, will show members of this committee how unemployment affects the different groups of steelworkers, which ones find new jobs and where, which ones do not, how age affects re-employment and how earning power changes. You can peruse the data for yourselves, but the basic message is very grim. The jobs Canada has been losing have been the well-paid, full-time, relatively permanent jobs such as steelworkers have held. The few employment gains have been in low-wage, part-time, non-permanent jobs. We have not heard or read a single convincing case that free trade will reverse that trend.

To summarize, our union's experience over the past two years in particular in struggling with the complexities of steel trade, convince us that free trade is simply not in the cards. Free trade is a two-way street and in our view the United States is not about to reject the protectionist appeals coming from several major sectors of the American economy.

Second, the debate suffers from an excess of almost religious faith in the unfettered market and from a lack of detailed worker<sup>4</sup> and family-oriented studies of the real impact of economically induced adjustment.

Last; it is our view that in many ways the free trade debate is a diversion. Arguing about the merits or demerits of tariffs, about unlimited markets in the United States, and about the necessary discipline that would be imposed on Canadian businesses really obscures the most crucial facts about the Canadian economy; that is, our reliance on primary resource exports to offset our burgeoning deficit in manufactured products and our heavy reliance on foreign investment and ownership. These structural imbalances in our economy have been with us for so long I wonder sometimes if our politicians and policymakers alike have become bored trying to deal with them.

Once again, we must echo our friends in the OFL. The five-point alternative sketched in their presentation--Canadian content rates, import substitution, market procurements, industrial offsets, expanded research and development--has our full endorsement. Only the vigorous pursuit of an industrial policy that makes maximum use of Canada's natural advantages, that opens up new areas for public input and participation and, most importantly, that measures economic wellbeing by the social and material wellbeing of its citizens, has any chance of winning public consensus and achieving economic success.

Within that overall industrial strategy, Canada must sharpen its bargaining skills, prepare detailed, tough-minded and sophisticated negotiating proposals, and set to work, sector by sector if necessary, building a system of managed trade agreements. Free trade is at best a fantasy and at worst a social catastrophe.

Mr. Chairman: Some of those who favour free trade have



been asking us what harm there is in opening negotiations; we can always back off if we find the scenario is as sour as you have painted it. What is your reaction to that? Why should we not at least open negotiations to see whether the Americans might have something worthwhile to say to us?

Mr. Docquier: We are not opposed to discussion of these matters. We say that before we set our goals we should know what we are going to talk about. For instance, when we were in Washington last year talking about our own problems in the steel industry, I had the distinct feeling the Americans do not know what we are. They do not know the impact we have on their economy. We impressed on them a few facts that were available at that time.

Within our country, the proponents of a free trade system are looking at the advantages of lower prices that might--I am not saying would--come of a free trade arrangement in some sectors. However, I do not know to what point a lowering of the consumer price would offset the loss of jobs that would happen in Canada.

We are very concerned that in the actual circumstances, and I am not talking about steel now, if a free trade arrangement on a large scale were negotiated with the United States, industries such as the shoe industry, the clothing industry, the textile industry and the furniture industry would be simply wiped out because we do not have the capacity to compete with American industries that have established production capacities or plants in the southern United States. That impact needs to be studied.

I hear people telling us; "It will create new jobs." I want to know where, I want to know when and I want to know what kind of wages they will earn.

I think of the people we represent, of a steelworker in Hamilton making \$25,000 a year who loses his job. After looking for a job for one year, he finally lands a job at McDonald's. To me, that is no future. There is a loss of dignity for those people that is incredible. Where are we going? Those are the things we want to know. We really want to know what the future holds in the framework of free trade.

10:30 a.m.

Mr. Taylor: There are two problems here. One is overprotectionism--if I can put it that way--as experienced recently in the United States with the steel mills you referred to. There was a quota system and the five-year moratorium, presumably to assist the United States in rebuilding its steel industry. In that case, as you know, steelworkers in the United States were in support of that legislation in Congress and the Senate. Here, the steelworkers were presumably opposed to it. That legislation manifested a mood of growing protectionism in the United States.

The concern is that we do not get overly protectionist on the one hand and that we do not open the floodgates on the other hand. There must be some happy medium somewhere. I would like your comment on that.

Mr. Docquier: It certainly looked as if we were between a rock and a hard place at that time. If I look at the US situation, it is evident there has been a total lack of industrial strategy. Government and corporations alike let the industry go down to a point where it was a national disaster. It is still a national disaster, as far as I am concerned.

On the other hand, I am asking the question and I know the answer. What would our steel companies do if 30 per cent of our national market were invaded by Third World countries--not even Third World countries--if our steel market were invaded and the competitors took 30 per cent of our share? What would our industry do?

Mr. Taylor: I presume it would display a posture of self-interest and seek some protection.

Mr. Docquier: You are damned right. The steel companies would be in Ottawa the day after publication of numbers like that and we would be with them. To me there is no conflicting situation.

I am concerned that if the steel industry in the US is washed out--and the danger is real that it will not survive unless important measures are taken--if that industry is destroyed, we will go the same route. We will be put in the meat grinder. We will not be able to close our border to Third World countries that are producing steel and whose overcapacity is so tremendous.

During our conference in the Sault in May, we were told there are two steel mills in Nigeria with a capacity of 10 million tons. That is more than Stelco is able to produce. Their cost of production is \$2,700 a ton, but they deliver that steel in North America at \$288 a ton. Cost is no problem. They have to get whatever they can in foreign currency to pay their debts. That is one example of the kind of situation we are confronted with.

In South Africa it is the reverse. They can produce at \$250 a ton because they have slaves, because they have oppression and because they have working conditions comparable to those in existence 50 years ago here. There is no free trade, sir.

Mr. Taylor: I agree with that. Free trade is simply a notion. You have already said you recognize that. When we talk about free trade, it would be interesting to get some understanding of what people think free trade is. It is just a purist theory, presumably. While there are human beings, there are going to be some inhibitions in terms of complete free trade in the nontariff barrier areas.

What I am trying to get from you to clarify my understanding of your presentation is the balance that you are seeking. You call it negotiated fair trade, which is not protectionism, certainly not extreme protectionism. At the same time, you do not want to open up the borders, presumably, to a free flow of goods and services.

Mr. Docquier: Let me give you an example. The auto pact is the example everybody uses, and it certainly has merit, but there are other experiences in that area. I think we should take a good look at the multifibre agreement. This is another way of managing trade, in which the producer countries sit down together and try to divide the pie that exists in the consumer countries. We are producer and consumer at the same time.

There are flaws in that one. Korea, the Philippines or China are not fair traders because of the kind of regime they live in. I am talking about the economic regime; I am not talking about the political regime. We have oppression in as many western countries or newly developed countries as we have in the other bloc. When we talk about economic oppression, there is no such thing as fair trade.

The multifibre agreement has allowed, I think, a readjustment of our textile and clothing industry such that we are competitive in many of these industries. We will still suffer readjustment because there are people who have better productivity than we have if we take everything into consideration.

When you take the aspects of wages, working conditions and standard of living, when you make a fair balance of advantages and disadvantages and you go to the bargaining table with these arguments, then you can devise what should be a share of the market. It is only through a well-documented dossier that we will be able to defend what we have. I do not want to see Canada become a country that has only natural resources, and I know even that is in danger.

10:40 a.m.

Mr. Taylor: We heard yesterday from the United Electrical, Radio and Machine Workers, and they were much stronger in their approach. They advocated more a Canadian economy of self-sufficiency, which involves the nationalization of certain basic resource industries, key industries in various sectors of the economy and the banking system and financial institutions, as well as foreign exchange controls.

That, to me, is a much stronger position than you take. As I gather from the thrust of your remarks, you certainly are not advocating a lessening of trade. I gather from what you are saying you certainly are a believer in world trade; it is a matter of ensuring that it is fair trade, that the arrangements are such that you are not being disadvantaged in any way. Would that be a fair comment?

Mr. Docquier: Yes. We have always said and we firmly believe our country has lacked a good industrial strategy that would look more closely into the transformation of our natural resources. I always feel bad when I see these shiploads of copper ore going to Japan or to Belgium to be transformed into finished products.



On the other hand, I know very well it is part of the tradeoff: yet we have sufficient natural advantages here that we could increase our share of finished products. We have a major deficit in the trade with respect to finished goods and machinery. We have good arguments to go to the bargaining table with the United States--and, again, I am speaking for my own church.

The steel industry is producing and selling a lot more steel than we did 10 years ago, but we also buy more from the United States with respect to finished products than we did 10 years ago. So there is a way of keeping what we have and maybe getting more in our country. We are not advocating extremes. We have to deal with our neighbour.

We are concerned that we should not put all our eggs in one basket. There is a danger in going with a free trade arrangement with the United States and the danger is that other partners will look at that as a threat. It is a threat and there may be a price to pay for that. These are other considerations that have to be looked at. We believe more in a sound, reasonable industrial strategy than in ideological positions.

Miss Stephenson: I am intrigued. Could you give me your definition of industrial strategy?

Mr. Docquier: We have to use the maximum, the resources we have here. We have natural advantages and we have to exploit them to their maximum. We have to--I am looking for the correct word--transform our natural resources to the maximum possible as well.

The management of the labour market is also an important ingredient. When we were importing people to do jobs that were available in Canada but we did not have the appropriate skills to do that, to me that is also part of an industrial strategy. We have to look at the area of new technology where we could be a major player, not going in every direction. We have lost so many industries by not trying to concentrate on a couple of sectors where we would have excellence.

These are, in a way, protectionist measures but they exist to the south as well. For instance, when we have major projects, I think there should be an advantage given to Canadian corporations. These are protectionist measures, but we cannot sell steel for highways in the US, for instance, and there are massive projects in the United States of modernizing the road system. Maybe it calls for retaliation, but if we do not use that, then we will not be able to have better access to other markets. There are a number of markets outside of the United States which could be available to us.

With regard to import substitution, there may be areas where an effort could be made. I always ask myself, why the hell do we use Swedish mining machinery when we are one of the largest mining countries in the world? It is beyond my understanding why there is not enough intelligence here, enough resources, enough finances to put together a very interesting industrial sector.

We have made tremendous progress in hydro-electric power. I think we are leading in that in many areas of the world. Our experts are called upon and we are doing a fine job. There are sectors like that which are, in my view, part of an industrial strategy.

Miss Stephenson: It is a matter of choosing the areas in which we can excel?

Mr. Docquier: Yes.

Miss Stephenson: And then pushing in those directions through joint action?

Mr. Docquier: Definitely. It does not mean that--

Miss Stephenson: I am suggesting the action has to be on the side of the state.

Mr. Docquier: Not necessarily. I will give you another example of lack of industrial strategy in this country. We have two locomotive constructors in Canada; one is GE and one was a Canadian firm. Because we lack the determination to maintain a Canadian industry, real Canadian, our federal government did not provide the financial goodies to put that company in the position where it could play a major role.

We have one of the largest railroad systems in the world and maybe one of the lousiest. I cannot understand that.

Miss Stephenson: It is not as bad as some others I have travelled on, I can tell you, but it is not the greatest.

The other point I would make is that had the federal government moved in that direction, it would have been doing precisely what it did with a number of other industries whose propping up has been of great significance but which have failed in spite of that. Are you saying it is a lack of wisdom in making the appropriate selections?

Mr. Docquier: I think it is more a lack of courage.

Miss Stephenson: They certainly have provided funds for industries. One thinks of Quebec Canadair, for example, and one has apprehensions about that. I am not suggesting the aerospace industry is not worth supporting. It was a choice made by the federal government that it was going to support the aircraft industry rather than the railroads which have been vital to Canada. That was not lack of courage. It was lack of understanding or lack of something; I do not know.

How do we ensure that we make the right decisions about which industries we prop up? Which do we select as those with the potential for excellence? They are not going to listen to politicians for damned sure and they are not going to listen to trade unions. We all have vested interests. We want a Solomon who is capable of making the decisions or giving us the kind of advice which would really be helpful.

Mr. Docquier: I hope in this case the politicians will listen to the labour movement telling the politicians not to move too fast to free trade.

10:50 a.m.

Miss Stephenson: The fact is that in Ontario we have always listened to the labour movement, for heaven's sake, and this is no exception.

None the less, the question is, are we the only people who should be talking about this? Surely there are others who should be talking as well.

What you really said was that an industrial strategy requires co-operation amongst all sectors. What I am saying to you is that the selection of those areas in which we might pursue excellence requires co-operation from all sectors as well. Perhaps that is the way to start. Perhaps we will get the co-operation in the other directions if we start with that selection process.

Mr. Docquier: Okay, but there is also an ever-present problem in Canada. When we have a crisis, we deal with a problem. When the crisis is over, we forget about the coming problem. There is no plan.

Miss Stephenson: I am not sure that is an entirely Canadian problem. That is human nature. When your roof leaks, when it is raining, you worry about fixing it. When it is not raining, you do not worry about fixing it. That is human nature.

Mr. Docquier: Perhaps we should go and look at a couple of other countries that are not as large geographically but that, as far as population is concerned, have not done too badly, and at much smaller countries, such as Sweden or Austria. We could draw from their experience. New technology has made its way in Sweden without the perturbation we see here. They have gone much faster than we have in the new technology area because they were able to plan.

Sweden closed its coal mines nearly completely in what I call a civilized way. Here it seems to be civilized because we provide what people consider to be generous severance pay. That strikes the minds of people. The guys are coming out of a lifetime job with \$20,000 or \$25,000 and everybody says: "My God, the company was generous. They were good." They were not good. They were throwing people out of a job. Government accepts that without the blink of an eye. There is nothing left. They move and they disappear.

You will look at the study we have. Our steel industry actually is one of the most privileged in the world in terms of its performance, profit, human resources, the dedication of the people who work there. Yet thousands of people have disappeared from the map in that industry in Canada. There is nothing we can say about that. They do not even have their names at Revenue Canada.



What happens to our people? These are the questions we have to ask ourselves when we go into a discussion about where the risk of dislocation is great. I think people are important.

Miss Stephenson: Of course.

Mr. Ferraro: To some degree, my question is a supplementary. When Dr. Stephenson was asking about industrial strategy and Mr. Docquier responded, it almost touched on the question I am going to ask, which deals specifically with the idea of competition.

We have read a number of articles and have had witnesses here who have said that Ontario and Canada can compete or cannot compete, tread softly and all the rest of it. When you look at, for example--and we have all read it--the Japanese position with MITI, you see the degree of co-operation and enormous success they have achieved. Last month they had the highest surplus ever in their history. Then we listen to some industrialists or individuals in this province and this country who say we cannot compete because of the labour situation. Before my honourable friend, Mr. Mackenzie, throws things at me, I am not arguing that we should have a tradeoff in our standard of living.

Mr. Mackenzie: I have never thrown anything at you yet.

Mr. Ferraro: Not yet, Bob.

I am getting to my question, which was prompted by you when you read your presentation. I do not know if I am reading too much into it or not, sir, but I followed your brief, which said on page 6, "in an unusual alliance with employers." I noticed with some interest you actually said, "in an unusual co-operative spirit with some employers."

Having said that, are the fences too high now between industry, government and labour? Can we ever each give a little for the common end? If so, how do we do that? If not, would you agree we have to suffer the consequences?

Mr. Docquier: Our system of confrontation to me has been as good to the employer as it has been to the organized workers, and to the unorganized workers by ricochet, because if there were not a union at Stelco, Dofasco people would not get the kind of wages and working conditions they have.

You made a parallel with Japan. I think Japan is the example of industrial strategy I should have given in the first place. There is a great deal of planning in Japan and it is a matter of--not behaviour--the French word is mœurs or coutume.

Miss Stephenson: Custom.

Mr. Docquier: Custom. We have imported from America the quality circles, the quality of working life programs. Now they come back here, but it comes from here; it comes from experience that was gained right after the war in the United States. I am not

saying it is impossible here, but there must be ingredients that are not there now. The lack of trust between the parties comes from there.

Our union tried to establish a quality of working life program--I think we have to find a better word now because it has raised so much opposition. When you try to establish such a program in a large company, and I will not name the company, and you are at a dinner to launch the program and the company tell you, "We are laying off so many people two weeks from now," you have no great enthusiasm to go on a quality of working life program. In my view, it imposes a number of obligations on both partners, not only on one.

11 a.m.

The trust relationship in Canada is very bad, but there are examples where we are competitive and where people are working together and are concerned about their survival. Let me tell you the working people of this country are concerned about their survival. I always talk of my own experience. I worked in a plant for several years and I was concerned 25 years ago about how the company where I was working was doing. If they were making a profit, it was good for me because I could ask for an increase. If they were losing money, I was in fear of losing my job.

Those are human considerations that are still there. The workers are human beings. More and more are educated and trained, and more and more have a conscience that they have something to give which is not being used. To me that is the most important aspect of competition. We are not using the talents of the people who are working in Canada.

Mr. Ferraro: I understand what you are saying and I do not disagree with it. The other side of the coin is that industrialists will say, "The only damned time we get anything out the labour union is when we are on the verge of bankruptcy or we threaten to pull out of Canada; then there are concessions." To some degree some might argue, "The only way we really get any co-operation"--their form of co-operation--"is to threaten to pull out of Canada or close down the factory."

Miss Stephenson: Quality of working life has produced some excellent examples of real co-operation. As the obstetrician who helped deliver it into a viable entity in this province, it is a very useful kind of structure and arrangement. The co-operation that has been developed in a significant number of instances is phenomenal.

Mr. Ferraro: I keep hearing that, but how the hell do you get down to it? I keep hearing that we have to co-operate. Can somebody tell me how the hell do we do it? I get tired of reading about it; I want it done.

Miss Stephenson: It is significantly easier if you are in Sweden and you are concentrated--

Mr. Ferraro: But we are not.

Miss Stephenson: --in the Ottawa Valley with a population the size of Ontario--

Mr. Ferraro: Thank God we are in Canada. How do we solve the problem?

Miss Stephenson: --or you are in Japan and you have a little wee three or four islands, and are concentrated, and you have real problems because you do not produce anything--

Mr. Ferraro: I start to wonder whether the politicians, industrialists and labour unions are not just--

Mr. Chairman: Mr. Ferraro, you had a question first.

Mr. Ferraro: I am wondering whether we are just kidding ourselves and whether we have all built our fences and do not want to co-operate. I do not know the answer and I am searching for it. How the hell do we get together to solve the problem?

Mr. Docquier: First, I would like to tell Dr. Stephenson that unfortunately, quality of working life has been used as union-busting tactics in some instances. Eldorado Nuclear is one example I have in mind.

Coming back to you, Mr. Ferraro, the problem is--

Miss Stephenson: Think of a couple of other examples, though, ones that are good.

Mr. Docquier: Sure, there are, but that one was close in my memory.

Strangely enough, a company that makes money never comes to ask for our suggestions about how to make more. They come to us when they are in trouble and when it is too late. It is not only our being ready to help or be co-operative or whatever that deals with--I see in everybody's mind that the unions are irresponsible. However, responsibility is something we have to be trained for.

When you work in a plant, have good ideas and are treated as if you were an ignorant individual or whatever, and then suddenly guys are coming to tap your brain, you ask yourself some questions. It has to be an ongoing process. You do not do that when you are on the verge of bankruptcy, and then when you are free of problems again you revert to the traditional authoritative way with arbitrary decisions and such things as that. It is a long process that has to be learned both ways.

Mr. Ferraro: Too damned long.

Mr. Taylor: What do you suggest? What you are saying is that you should not be there just to help the company get out of trouble; you should be there to help it get into trouble as well.

Miss Stephenson: No. Stay out of trouble.



Mr. Taylor: Are you suggesting membership on the board of directors and that type of thing?

Mr. Ferraro: Profit-sharing.

Mr. Docquier: I have a great deal of reservation about that because we do not have the kind of legislative framework that would make it significant or worth while. There is so much lacking in our legislation.

When we go to the bargaining table and we do not have all the facts, we are at a disadvantage. In many instances we have only our tools or our power to bargain with, and that is not good. Information should be mandatory. We should know exactly what is going on in the plants where we work--not half-assed information, but everything.

Why are they losing money? When a company tells us: "We are losing money. We want concessions," we say: "Fine. Open your books." They say: "Oh, my God, no! Open our books to you?" When they do, we know they are in trouble. We can cope with this situation.

Mr. Mackenzie: I cannot help commenting on some of the dialogue and exchange that has gone back and forth. When we talk about trust as labour, certainly as organized labour taking a look at how we organize our economy and at what kind of strategy we have, do we see some of the problems as first-contract legislation, for example, and the inability of new workers and a newly organized plant to get a first contract, the enforcement problems we have with safety and health legislation, the internal responsibility system that time and again breaks down and does not work in a plant?

There are the problems with certification, the fact that there is a 10-day period. Really, the application date should be the terminal date. As it stands now, though, there is a 10-day period during which almost all of the company actions against the workers or against an organized effort surface. There is also the lack of adequate early notice of plant shutdowns, as well as the costs of going to arbitration now, which was an issue five or six years ago and is right back up to the top of the list again in terms of arbitrators' fees.

Would you say these are some of the reasons there is not an element of trust, that we have not been able to get the legislation in these areas in Ontario?

Mr. Docquier: I would summarize that by saying one thing. As long as the labour movement is not recognized as a real player on the economic scene, as long as the employers fight us tooth and nail as a representative body, that mistrust will exist and it is hard to overcome. It is only words. They say, "Sure, we recognize you, but we deal with you because we are forced to deal with you."

I can give you an example. I have to admit the guy had guts. We had a meeting of a mining corporation--this was not in Ontario. There were several thousand people, several local unions in five different provinces and territories, and the guy was explaining the problems of the company. We were listening very carefully. At the end of his message, he said, "We have another mine, but that mine will never be unionized." Let me tell you, when you hear that you want to hit the deck.

The fundamental problem is that unions are not recognized as players in our society. You made a list that is part and parcel of the problem we have. You could add a few more and I could, too.

Mr. Chairman: I wonder if you would keep to the subject matter of the committee.

11:10 a.m.

Mr. Mackenzie: I think we can do so and we are doing so, Mr. Chairman, when we talk about workers' participation in developing an element of trust when we are looking at these situations.

Mr. Docquier's own union has cases I know of. I think of Irwin Toy and of Radio Shack, where workers attempted to get unions. They had overwhelming support and in at least one case a union does not exist today. You can attribute a lot of it to the kind of labour laws we have.

One of the problems we have had with those who espouse a free trade policy is that they are asking us to accept it, almost as an article of faith, and they usually cite the size of the United States market and the trade balances we have at present, but lack figures--a situation to which you have referred--with respect to what it is actually going to do for us or where we are going to gain the additional jobs.

There are those who have appeared before this committee who feel very strongly that we must develop an industrial policy--and I notice that is part of your brief as well--in other words, we must decide just exactly what we want to do as a nation and as a province in those industries in which we are not only strong but also have some future. Without an industrial economic strategy in the province, it is very difficult to make any sense of this whole argument over free trade or just exactly what it means. Do you see the need for an industrial policy or economic strategy, as something that is lacking in the province?

Mr. Docquier: It is lacking everywhere in Canada. Ontario definitely makes no exception so we have to address that. The part the provincial government has in the economic development of the province is important. If we have no sense of where we are going, it is very easy to obscure the debate with all kinds of expectations.

Mr. Mackenzie: I notice in the final summary you repeat some of the arguments of the Ontario Federation of Labour. I take it you do not see any difficulty with a fair trade policy and

things like Canadian content legislation or import replacement, the domestic procurement policy you are talking about. Do you see all of these as tools that would be part of an industrial strategy?

Mr. Docquier: They are part of it. However, if and when we go to the bargaining table with other nations, we will have to look at the question of orientation, maybe in a different light. The problem of content is basic, and I will use the Canadian steel industry as an example. We sell about 20 per cent of our production to the United States. On the other hand, we buy half of what the United States exports in steel. So these are problems that have to be taken into consideration.

The fact that we buy our coal and refractories in the United States, that we transport coal from the United States and it is a US-added content in our steel, all these factors have to be taken into consideration when you go to the bargaining table. It is not only a straight matter of saying, "You have two per cent of our market share." We have to build our case to get as large a quota as we can but also on a fair and equitable basis, such as the auto pact or other agreements that have been reached between other nations.

Mr. Mackenzie: You refer to the fact our steel industry imports \$1.25 worth of inputs from the United States as against \$1 exported there. Is that the kind of figure one would use in the tough bargaining to offset the additional protectionist sentiment in the United States? There is no question we might like to come to some balance on that, but that is the tool we have in this case.

Mr. Docquier: What does it mean for the United States, for instance, to put a quota on Canadian steel? How many jobs are they going to lose if they do that, because there will be a loss of jobs? Will it be offset if they produce their own steel? These are questions we have to ask ourselves and we have to be prepared to answer. I do not have the answers. The governments have the instruments to go after information like that.

We believe we cannot let the market forces play and destroy things we have worked so hard to establish. I do not see that the total free market is an instrument to enhance our standard of living in Canada.

Mr. Mackenzie: Do you see the protection of some of the benefits we have gained--whether it is workers' compensation or unemployment insurance, we have had other examples given us in other industries--as being a legitimate part of our negotiations? In other words, these are things that are not negotiable that are part of the strategy or the protection we want to provide for Canadian people.

Mr. Docquier: Yes. You strike a question there. What will be the impact of free trade on our ability to tax people, corporations and other things in Canada? It will have some bearing. I do not know if we can open trade with the United States in oil and gas, for instance, without having any backlash in Canada. I do not know to what extent it may damage our ability to maintain our social security system. We have to look at that.



Unemployment insurance and other adjustment programs are part of the protection we must look at. There are many more. Unemployment insurance is insufficient to take care of people who will lose their jobs because of readjustment in the production system that would take place in North America.

Mr. Mackenzie: In closing, I might point out that other than a little bit of the rhetoric, there are more similarities than there are differences between your brief and the brief we received yesterday from the United Electrical, Radio and Machine Workers of Canada; the arguments for self-sufficiency, content legislation, protecting social benefits, research and development are all the same. The difference, if there is one, is in a little bit more volatile rhetoric and a couple of mentions--which was not the total basis of the brief--of nationalization.

Mr. Knight: On page 8 of your presentation, you refer to our lack of background information or solid research work that is available to us if we want to consider whether or not we should enter into a negotiation. It is a concern that has been mentioned to us by previous witnesses. Some people who have suggested we do enter into negotiations have suggested that perhaps we should wait until such point as we have more detailed information.

11:20 a.m.

I notice also that you have provided us with a background document, with some fairly extensive historical documentation relating specifically to the steel industry, although it may be for the Canadian market as a whole. That was provided some time back. You indicated you would be looking at a more in-depth analysis. Have you been able to proceed with that and what sort of figures have you been able to come up with regarding the potential impact on the labour force of more liberalization of trade?

Mr. Docquier: We have not come with numbers. We are doing research. As a matter of fact, we are doing research in two directions, steel and mining, because miners are an endangered species. Looking at what has happened to the people working in that industry we believe will give us a better image of what is happening to people who are displaced on a permanent basis from an industry.

There are fluctuations in the steel industry that are still temporary to a point. From what I can see, we will have dislocation two to three years from now in the steel industry, but there has already been tremendous dislocation in the mining industry and we are pursuing that research in depth. We do not have any results as yet.

Mr. Knight: What time frame will be necessary for that?

Mr. Docquier: The problem is we do not have the resources and the data the government has. I do not expect we will have these numbers before February or March. That is a long time.

Mr. Knight: But you do make the point in your presentation that it is important to have that information and

analysis before we consider entering into any negotiations.

Mr. Docquier: Are you asking if it is important to have that kind of information?

Mr. Knight: As part of a broader sectoral analysis prior to any negotiations. I am asking if that is what I am reading in your presentation.

Mr. Docquier: Yes.

Mr. Ferraro: I am still hung up on the trust and co-operation aspect. Would you be supportive of a recommendation, if this committee deemed it so, to the government of Ontario, and possibly to the federal government, to form an association, a forum, a co-operative or an alliance, whatever word you want to use, by industry, labour and government to start to develop an industrial strategy?

I also want your comments on whether it would be logical, considering the frame of mind of the parties involved. In other words, I am trying to cut through the rhetoric and somehow come up with a starting point. The fences have to come down sooner or later. We have to learn from the Japanese. They sure as hell learned quickly enough from us and from the United States. I am not prejudging what the committee will do. I am just throwing that out.

Mr. Docquier: I will speak for my union first. We have an experience going on right now, following the steel trade conference. We have set up a committee composed of the steel people and the people of our union. It is much easier for me to tell you that in this sector we are ready to play our role and look at solutions on trade, on labour adjustment and on any other question that arises. We are ready to talk about internal markets, external markets or whatever comes about.

On the national scene, we have the Canadian Labour Market and Productivity Centre. It has not produced a miracle as yet. It is a very long process.

We have 12 people from the business side and 12 from the union side. The problem we are faced with at that level is that one of the major obstacles is the legitimacy of the labour movement. When we are fighting for our own survival--I am not saying we are dying and some people would like us to die. It is a tough nut to crack. We are still fighting for our own survival at that level. That is a major obstacle.

My conviction is that it is through experiences such as the one we are trying to have in the steel industry that we will be able to demonstrate it is possible to achieve some kind of co-operation. We are not trying to take over the bargaining process. We are very specific. We say we will deal at these tables, because there will be four different tables, with matters that cannot be resolved at the bargaining table. We hope through that process there will be a common understanding of the problems faced by each of the players.

Government is there, but not as a voting part of it. The federal government is helping. We will be knocking at the door of the provincial government because the steel industry is basically in Ontario. We believe it is only through practical experience that we will be able to establish either that it is possible to live together and find solutions together or that we are doomed to fight each other for the rest of our lives.

Mr. Ferraro: Are you telling me you would or would not be supportive?

Mr. Docquier: Yes; in my sector. I am not about to answer for Cliff Pilkey.

Mr. Ferraro: I realize that.

Mr. Morin-Strom: I would like to ask a question about the basic steel industry where you represent so many workers.

Many of the strong advocates for free trade and many of the economists who have been in front of us have used the steel industry as an example of an industry where there is an opportunity to gain many jobs, an area where under a freer trade arrangement Canada presumably would move ahead, expand and create jobs for the workers who are going to be displaced from furniture, textiles, whatever the areas in which jobs are going to be lost.

It is interesting that you, as a representative of workers in the steel industry, are not advocating what free traders are telling us is a tremendous benefit to the steel industry. I wonder whether you could give us an idea of what type of potential opportunity for new jobs you think there is in the steel industry from the negotiation of a comprehensive trade agreement.

Mr. Docquier: Our view is that in the immediate future a free trade arrangement with the United States would benefit the steel industry. There is no question that, because of the state of the industry in the US, there are massive investment needs, actually by three or four major steel makers where the production capacity is much bigger than ours.

11:30 a.m.

Perhaps two or three years ago they had about 15 per cent of their steelmaking capacity equipped with the continuous casting system. We had 30 or 35 per cent. They are close to 40 per cent now. They are now beyond our capacity as far as that aspect of the production is concerned. The Canadian steel companies are investing in that field too but I am convinced that within three years the United States will be at 70 to 80 per cent continuous casting operation, reducing not only the cost but also cutting more jobs and putting themselves on a competitive basis with any other producer in the world because they are really putting in the state of the art equipment.

During that period of time, Canada will be able to sell more steel in the United States. There is no question about that. It



will give our companies time to modernize as well and the modernization is under way. It will reduce jobs in Canada. I can predict Stelco will have 2,000 fewer people in the Hilton works five years from now than they have now and very likely they will be producing more and better steel. In the meantime, the United States will increase its potential and competitiveness. What is good for the goose is good for the gander. If they are able to compete in our own market I do not see any advantage in that free kind of environment. We are better to protect a good share of the United States market and have a vision of the potential of the increase, because I still hope there will be a need, even if we find a substitute for steel every year.

Now we are talking about ceramic engines. Imagine the blow it will have on the steel industry worldwide, not only to us, if our cars are made with ceramic engines. But there will be a need. There is expansion in the world right now. One hopes there will be more expansion, but in the long run we do not have the capacity to compete with the United States.

Immediately, yes, free trade is to our advantage. If we push more steel in the United States, protectionist measures and attitudes will increase. We run a greater risk of having a quota imposed in the long run so I do not see any advantage in it except immediate profit for a long-term disadvantage.

Mr. Morin-Strom: Even in the short run--are we talking about hundreds of jobs or thousands of jobs? My understanding is the companies are not running that much under capacity and I wonder how much opportunity there really is to beef up our production levels in Canada.

Mr. Docquier: Actually, at best, it will be to prevent layoffs from happening. But more than that, it is important. For the guy to be laid off it is vital but--

Mr. Morin-Strom: It is not the kind of thing where we could double our output and--

Mr. Docquier: No.

Mr. Morin-Strom: --take that 10 per cent of the United States market.

Mr. Docquier: No. If we are instrumental in pushing to the destruction of the steel industry in the United States, that is opening the gate to offshore steel and then we are vulnerable, not only from the United States but from offshore. It is a complicated thing.

Mr. Chairman: That is the very opposite to the general scenario in all industry that Professor Wonnacott painted for us, where he talked about short-term losses but long-term gains once we have rationalized production. So it is much more streamlined than he feels it is in this country now. He is talking generally and not just about the steel industry.

Mr. Docquier: Yes. But to give credit to the steel

industry in Canada, it has done a tremendously good job of keeping up to date. Our industry is second to none.

Mr. Ferraro: Does it not tell you something, though, when you say we cannot compete in the long run, and yet the Japanese--

Mr. Docquier: I am not talking about the Japanese. We compete with the Japanese.

Mr. Ferraro: --the Japanese, who have virtually no resources, are more than competitors?

Mr. Docquier: I am not talking about the Japanese; I am talking about the Americans. We are close to them. Actually, I think if there were not that difference in dollar terms, we would be on an even keel with them. We have the same source of raw material; we pay basically the same price for our energy; we pay basically the same wages to the people who work there, in straight dollars. We have the same customers; we are in the same market.

I am not comparing the Japanese. We are better than the Japanese in steelmaking. We are much better than the Europeans. It is a matter of ability to produce very large quantities of steel. The shakeout that took place in the United States in the last three years is unbelievable.

Mr. Ferraro: It is a matter of competition, and that is just what you are saying.

Mr. Docquier: To me, it is also a matter of mismanagement that they are forced by the consensus to do or die.

Mr. Chairman: Thank you very much. As you indicated to me before, your presentation has emphasized a lot of points we have looked at, but at the same time it emphasizes them in a somewhat new light. Particularly with regard to your own industry it enlightens me quite a bit about where you see it going. We appreciate it and I am certain we will reflect on it when we make our report back to the Legislature. Obviously the media had a lot of interest in what you had to say; therefore, we should too.

The committee recessed at 11:39 a.m.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

TUESDAY, AUGUST 27, 1985

Afternoon sitting



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Traficante, F., Research Officer, Legislative Research Service

Witness:

Crispo, Dr. J., Professor of Political Economy, Faculty of  
Management Studies, University of Toronto

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, August 27, 1985

The committee resumed at 2 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

PROFESSOR JOHN CRISPO

Mr. Chairman: I call the committee to order. We do have a quorum, do we not, Mr. Taylor?

Mr. Taylor: Yes, indeed we do.

Mr. Chairman: Indeed we do. We now have the five brightest members of the committee here.

Dr. Crispo: Do we rise in order of intelligence?

Mr. Chairman: That is correct.

Mr. Taylor: That is 'right. I always come last. You can be mindful that you are not near me.

Dr. Crispo: I will watch you like a hawk.

I will not repeat myself except to say I thank you for this opportunity to be here. I have some background material. Maybe I should circulate the notes I am going to be using beforehand. I think I have enough copies for those who have come. Then I can leave a couple of copies of three other documents.

One is a copy of a brief I submitted to the federal committee which just reported. That is not too flattering to Ontario. Perhaps I will not give that to you until afterwards. I must confess I have been rather disturbed by Ontario's position on the free trade issue and on some other national issues.

I did say in that brief, under the heading of Ontario's position, things have not changed much with our new Liberal-NDP government. Tories used to argue that what is good for Ontario is good for Canada. Liberals now argue that if it is not good for Ontario, it is not good for Canada. That is the stuff of real political differences in Ontario. Although I have lived here all my life, I put myself very much as a Canadian first and an Ontarian second. I would like to think that I think of the national interest. In the area we are going to be discussing, I think Ontario is totally off base and what is in the national interest is in Ontario's interest.

By now you will realize my basic message is very much in favour of free trade; I have been there for some time. The other



documents I am leaving with you will reinforce the impression created by the one I left with the federal committee. One is the text I used in debate against Abe Rotstein at the conference sponsored by the Ontario Economic Council. The other is rough notes I have used for a series of speeches in the United States going back about five years. I am not new to the free trade front; I have been on the right side from the very beginning.

What do I mean by free trade? I am not going to call it trade enhancement. I am sick of gobbledygook. We are getting it in spades from the federal level and will doubtless get it, maybe only in clubs, from this committee. It is free trade we are talking about. I want free trade in as comprehensive a form as possible, that is, with as few exceptions as possible.

One exception obviously will have to be protection for some of our cultural industries.

I see you had the Ontario Federation of Agriculture here today, not representing, I might say, hog producers, cattle producers or others who would love to have ready access to the US market. As a part-time farmer, I know something about the barriers that are there.

If I were to make an exception for agriculture, it would be simply because in the short run we have to find a way of reconciling our two countries' different support mechanisms. That is the problem. They have one crazy set of support mechanisms and we have a totally different set of support mechanisms. Over time they would have to be reconciled if there were to be free trade in that area.

As far as I am concerned, nothing less than comprehensive free trade is worth discussing; nothing else is on. As you have been told repeatedly by witnesses who follow these things even more closely than I do, the sectoral business is not on because it is not practical. The United States is not going to have anything to do with it and it violates the General Agreement on Tariffs and Trade.

If we want to avoid GATT and all the problems that involves, the only thing we can go for is something that embraces the vast majority of our trade. Then we do not have to have GATT permission to go ahead. That is not why I argue for it. I happen to believe in it on its merits.

Do you know what they told me, Bette? They told me people arrive at this committee in order of their intelligence. I do not believe them any more. Do not put that in Hansard or it will--

Miss Stephenson: It is already recorded.

Dr. Crispo: Is there nothing you can do with it? It is 1984 or well past that.

I will then deal with what I call Ontario's lonely, misguided, shortsighted and wrongheaded attitude.

Mr. Ferraro: Do not hedge.

Dr. Crispo: All right. I will try to be more direct so you can understand what I am getting at. I do not have to tell you that Ontario is virtually alone in opposing free trade; even Quebec is on side. I have never understood that, except for possible political motivations that might be a little machiavellian, because Quebec has industries that are far more vulnerable in the event of free trade than Ontario has ever thought of having.

We are virtually alone in our opposition. Even in Ontario, what I find noteworthy--let me just review it--is that all three parties are against free trade. Miller said, "Proceed with caution." That was the most positive thing anybody said. The Liberals said, "No truck or traffic with the Yanks." As far as I can make out, Bob Rae wants to build a Panama Canal to separate our two countries. It is just varying degrees of opposition. All political parties are against it. The trade union movement is against it.

I see my friend Docquier was here this morning. I spoke right after him at the national committee level and we were at loggerheads again. I do not understand Docquier. The steelworkers have seen the quotas of buy American. I know the woodworkers do not believe in the Canadian Labour Congress policy line on this; there is a lot of party line in this stuff. The union is publicly against it. Dennis McDermott is ranting and raving for his Labour Day speech at the national level.

It is instructive and far more important to me that virtually all business associations, nationally and provincially, and most businessmen who have gone on the public record are for it. I think that is terribly significant. Your own Ontario Economic Council--the previous government's--is the Ontario Economic Council a neutral body? I do not know what we consider it. Whatever it is, it has said the right thing over time.

2:10 p.m.

Mr. Mackenzie: To set the record straight on that, Dr. Crispo, the actual question put to the Canadian Manufacturers' Association was how it would split. At best it was 60-40 for their own members.

Dr. Crispo: Okay. The Business Council on National Issues is about 85 per cent and the Canadian Federation of Independent Business by poll was 75 per cent across Canada. Those are pretty strong figures. I am surprised the CMA figure is so low. I did not know that. I appreciate the correction. I had not heard that figure. Thank you.

Those who are for free trade know, particularly in the business community, and the majority of economists know, which probably defeats the cause before we start, that Ontario's historical reliance on the national policy, or whatever you want to call it, protectionism, has served this province well. It was designed for this province, for the Golden Horseshoe.

Nobody is going to deny that for the past century we have done very well by it in this province. It provided us with a captive Canadian market and it forced the American companies to jump over and establish the branch plants everybody is so upset about. It did everything this province could have asked for, but it will not do any more. It is not enough. The Canadian market is simply not large enough to support a modern industrial society.

I am aware of that. I addressed the robotics conference, computer-aided design/computer-aided manufacturing, CAD/CAM, or whatever they call it. I am aware of batch production and all the possibilities, but in terms of overall access to markets, I do not know anybody who is arguing that you do not need access to a market of something like 100 million. We have not got any other market we have any hope of having ready access to that begins to meet that number, other than the United States. Our only real option lies with some sort of guaranteed free trade arrangement with the US.

If I can speak to Ontario's position--I should qualify that, but let us call it Ontario's position--I want to spend a few minutes on the auto industry, because that seems to have everybody all upset. No wonder Bob White does not want free trade. He has the auto pact. Why would he want free trade? He has a better deal. I would argue that the government of Ontario, and all parties, are rightly concerned about a very critical industry in this province.

I would also argue--and I seem to be all alone, but I do not think I will be over time--that this concern is misdirected. The auto pact has undoubtedly served us well in the last few years. We were crying the blues five or 10 years ago. It did not seem to be working our way, but for the last five years it has served us extremely well. Yet I believe the best thing for the auto industry over time will not be the auto pact, because I do not think it is going to survive. It will be free trade.

Let us not forget that when the auto companies rate their plants, ours are always among the most efficient. General Motors rates its plant in Oshawa up near the top. Our plants are darned good. We have a tremendous advantage because of the exchange rate, which may narrow over time, but it is an unbelievable advantage we have. I would much rather bet on free trade, plus our efficient plants and the exchange rate, than on the auto pact.

Why am I worried about the auto pact? United States protectionism is on the rise. You have been lectured about that from one end of your hearings to the other. Let me make it clear I am down there a fair amount. They now know their second largest deficit is with Canada. They also know one half of their current account deficit with Canada is under the auto pact. When they leave, they are going to pounce. If any of you think they are not, you are dead wrong. If you think the auto pact is going to survive in its present form, you are just whistling Dixie.

The main reason now is that we have lost our biggest ally. I make no secret of the fact that I have a love-hate relationship with Bob White. He is the greatest leader this country has seen in an awfully long time. He is of the order of Walter Reuther. I just wish he would use his talents more constructively.



Having taken the Canadian United Auto Workers out of the UAW, he has lost Canada's biggest ally on the auto pact side. I can speak with more authority on this than Bob White can. I was doing my book on international unionism at the time the auto pact was going through the US Senate, and the senators were all opposed to it, especially the Midwestern senators. Walter Reuther was testifying. I was sitting there when they asked him, "How can you be for a pact that is going to lead to the transfer of jobs from the United States to Canada?"

What did Walter say? He said two things, "One, we are all brothers and sisters in the same international union and. two, I am going to narrow the wage gap," which he did. It was he who took the auto pact through. It was the UAW that went to Lyndon B. Johnson and said: "Look, this is important. Put her through." And she went through. We do not have Walter Reuther, and Owen Bieber, it is interesting to note, is not even coming up to address the founding convention of the new breakaway union. Walter's former brother is coming to address it. He is the only one they could get to come and address it. There are bitter feelings south of the border about this unnecessary breakaway.

I am biased. I work for the United Auto Workers. I believe in international unionism where it is appropriate, and nowhere is it more appropriate than where we have an integrated industry across the two countries. Bob White, for his own reasons, which he can explain to you, has broken the union away. In the process, if the battle starts in the United States, instead of the UAW being on our side this time, as it was last time, it is going to be dead against us. It is going to say, "Down with the auto pact."

So do not leave this committee and write a report smugly assuming the auto pact will protect our most important industry. We are far more likely to do better in the auto industry if we get a guaranteed treaty on free trade, which would not be abrogated just because of the problems in one industry. Do not assume the auto pact is going to survive. I tell you, it is really on the line.

Beyond that, there is the broader concern about winners and losers, and I am not going to sit here and tell you. You have doubtless heard testimony from some of my friends in enterprises who swear we are going to go under if we get free trade. I do not believe it.

I do not know whether he was here, the fellow from up north. He is an enterprising character.

Miss Stephenson: He is going to close the plants.

Dr. Crispo: Is he going to close the plant? I do not believe it; he is too sharp. But he just got a contract from the United States, anyway, for \$5 million.

Miss Stephenson: He could not get one up here.

Dr. Crispo: Do not worry about him. Guys like him will fool you in the long run.

I am not going to tell you everybody is going to survive. Some people are going to go under. Some people are going to go under in this country regardless of what we do. How many more? Who knows. The point is that with free trade there will be winners and losers. People like me believe there will be more and bigger winners and, therefore, the wherewithal to do something about the losers. Without free trade, as far as I am concerned, there are only losers and no way to do anything for them.

What do we do about the losers? Essentially, two things are required, and again I want to be brief. Everybody is telling you we should not go ahead with this unless we phase it in. I do not know whether it is going to take five or 10 years and I do not even know what the phase-in procedures and processes would be. But undoubtedly, if we go ahead, it has to be phased in, and that means fewer losers. People have time to adjust.

The other thing, of course, is that there must be adjustment assistance. Some people are just not going to survive. I would put the emphasis on manpower adjustment, but I suspect that if we make this big a decision, there may even have to be some help for the people who have capital invested in industries that are not going to survive.

It will be argued--and indeed, this province seems to feel--that free trade is better for other parts of Canada than it is for Ontario. I cannot categorically say that is wrong, but I am not going to bet on it, because there is no province better placed to exploit what is still one of the richest parts of the American market, the northeast. I know everybody talks southwest, but northeast is fantastic. New England is recovering; New York is recovering; Michigan and Ohio are still in trouble. We are well poised to exploit that American market.

Let me load this. I think it is those who have an inferiority complex, and there are a lot of Canadians who have inferiority complexes, who do not think we can do well. I address trade associations; I average one or two a week across this country. There are exceptions, like boots and shoes, leather and textiles. But, God, if you talk to steel, cement, rubber, any raw material you want to name, chemicals and ask for a show of hands, the majority--I am not going to say whether it is 60 or 80 per cent, but it is a good, solid majority in virtually every group I address--say, "Let us at them." They are ready to go.

Even if you could convince me that other provinces were going to do better because of free trade than Ontario, I would still be for it, because when the rest of Canada does well, Ontario does well. I am one of those who liked John Robarts. He was the last Premier who ever said anything at all diplomatic on this subject. He once said, "What is good for Canada is good for Ontario." I do not know whether he ever meant it, but I sure appreciated it when I heard it, because you will not hear it very often from any politician in Ontario. I fervently believe it.

When we foisted the national energy program on the west, we hurt ourselves almost as much as we did the west. I do not believe the rest of Canada will benefit more from it, and even if it did, I would still say Ontario will do well.

2:20 p.m.

What is my conclusion? Maybe it was my friend Lipsey who said this is a very fateful moment for Canada, that we are probably making the most important decision--if we make a decision. You know what Brian is going to say? "Free trade if necessary, but not necessarily free trade." That would be fairly consistent in terms of his approach to all policy matters.

I am sorry to pick on the Tories but since they are out of power here, it is safe to do it.

It is fateful moment. I did not tell you the title of my remarks, "Getting Ontario's head out of the sand." That is what I think it is all about. How do we get Ontario's head out of the sand? We recognize that what is good for Canada is good for Ontario, that this is a very critical moment in our economic history and that we should get on side. That is my message, "Get on side."

Miss Stephenson: The one question which has been raised consistently in all these hearings by almost all members and by a good many presenters is that we do not have the kind of factual information which would help us to make the decisions. You say very clearly, Dr. Crispo, that you also do not have the factual information but you have a lot of gut feeling and, from all of your background knowledge of this, you believe there is benefit to be gained by moving in this direction rather than going in another direction. Is there another direction we could go?

Dr. Crispo: First, the data, there are macro studies that have been done, such as those of Harris at Queen's University. There are some macro studies, but you will never get all the data on all the industries. My data is in a very crude form. That is the judgement of businessmen that I address in different trade associations across this country. I gave you the exceptions. There are some very negative people. They are the most overly-protected characters in the country who are not going to survive in the long run.

You should not let this data thing hang you up. You will never get all the data. Economists will play around forever with their econometric models, macro or micro, and they still will not give you definitive answers because they have to put in assumptions and what you put in, you get out--garbage in, garbage out. It depends on what you put in. Do not let that hang you up. I am much more influenced by what those people who are going to have to meet the challenge have to say about their survival instincts.

The purpose of your question was: What are the options? You will find I review these, in particular, in some notes I use for an American address. Fortress Canada is hopeless. We could go Fortress Canada. We could just seal the border, watch our standard



of living go down and enjoy ourselves because we are Canadians.

The other option is the General Agreement on Tariffs and Trade and multilateral trade. Nobody, including me, is against that. I want us to press ahead. I do not believe that a free trade deal with the United States is inconsistent with that. Canada should be very much in favour of it, just to have that access to Europe and increasingly, the Pacific Rim; but that is a risky option.

We still are in a world where there is a race between protectionism and revival from the recession that in some respects we are still in. It is not at all clear to me which is going to win, protectionism or revival. If protectionism wins, and there are a lot of signs of it--there are frightening things going on around this world in one name or another. We do not call it protectionism, we call it industrial strategy or reindustrialization.

There are euphemisms, such as trade enhancement, for this other area as well. It is frightening because if there is an international trade war and we are not inside the United States, we are dead. We have no friends. We are nothing. You will not like that but in terms of international clout we are nothing. We desperately need a deal with the United States but that in no way should preclude pushing on with the multilateral thing. But I look at the options; there are no options.

Mr. Mackenzie: Dr. Crispo, you give us a very strong and emotional presentation, but like almost all of your colleagues who would come down on the supportive side of free trade, you cannot or do not give us the figures. We should not worry about them; you cannot identify where the real growth is; you have a gut instinct or reaction to it. Even you admit there are some losers in it.

We are being asked to accept on faith that we should open it up. The one thing we do know, the one thing that even the supporters of free trade agree on, is that we have some real problem areas, some adjustments and some adjustment time. Some of your business colleagues whom you quoted as being so strongly on side with it made it very clear that we were going to have to look at the problem areas, and that there were going to be adjustments and problems with it.

It is very clear that we have some problems with it. Nobody is giving us very much other than, I say once again, faith in what we are going to gain with it.

Dr. Crispo: I am sorry. You accuse those of us who favour free trade of speaking from the gut and only with emotion. You could say precisely the same thing of those who speak against it. They are saying the status quo will do, and we all know it will not. There is emotion and gut feeling on both sides of these things.

Moreover, there are secret agendas behind virtually everything all of us are saying. I answer to nobody but I was told by the national committee, so I may as well tell you this, my

secret agenda is that with free trade I will be able to speak more freely for higher fees in the United States. I did not realize what my hidden agenda was, but even I supposedly have one.

Miss Stephenson: What has ever hindered you from speaking freely?

Dr. Crispo: You cannot speak in the United States for a fee without a permit from the US Department of Labor saying that no American can give the same speech.

Mr. Mackenzie: I cannot recall more than one or two of our presenters really making a case for the status quo. I heard some cases made for some pretty tough negotiations for managed or fair trade. I know you do not like the euphemisms, as you obviously do not like the term "enhanced trade" that is sometimes used to soften the free trade argument. We certainly got an admission we cannot bury our heads in the sand.

Dr. Crispo: However, we are not going to get an agreement on fair or managed trade. You do that sectorally. Aside from the problems I mentioned earlier, US opposition, which I subscribe to, and the General Agreement on Tariffs and Trade problem, if you do that you end up trading sectors against each other.

You do not get away from the problem. You just say, "Look, we would like you to do this for us in this sector. It is to our advantage to have free trade in this sector." Do you think the Americans will say, "Right, we will do that?" They are going to say, "You like that sector. We like the information sector," or the computer, service sector or banking sectors. You do not avoid the problem.

I say you are much better off going right in, allowing for the phase-in and adjustment mechanisms. Yes, we are taking a chance, but no matter what we do right now we are taking a tremendous chance on our future. You could just argue international trade theory, comparative advantage. I suspect one or two economists may have come in here and done that. I would not. You would probably throw me out.

I am convinced on the balance of the evidence available, plus the macro study at Queen's University, which shows a five to eight per cent increase in our gross national product. That is a lot of extra money to cope with adjustment and transition problems. The data that is available is comforting, if anything. I do not know what you would call it, you called it an emotional gut feeling. The feedback I get from trade associations is on balance very positive.

I am not sure economists doing studies are going to come up with more worthwhile data than people who are out there already trying to penetrate world markets, who feel they would have a darned good chance in the United States if it were not for "buy America" and quotas and all the other things with which they have to contend.

Ultimately it is a judgement call. If you want me to suggest it is all black and white, I cannot do that. However, it is a vital judgement call and I am so convinced of the balance of the evidence available I cannot equivocate. I do not think there is any doubt about what we should be doing.

The sad thing is I think you can stop Mr. Mulroney. His disposition is to go ahead but you in this province can stop him. It would be a tragedy.

Mr. Chairman: Do you have a supplementary, Mr. Taylor?

Mr. Taylor: Yes, my questions are always supplementary or for clarification. It is the only way I get on the agenda.

Mr. Chairman: I know, but you could get on more often.

Mr. Mackenzie: As long as you do not try to answer questions, as you sometimes do.

Mr. Taylor: No, I do not. I sometimes try to develop some concept of what is being said, but that comes with great difficulty, I must confess.

Dr. Crispo: You are speaking of your colleagues, not the witness.

2:30 p.m.

Mr. Taylor: Yes, indeed.

Conceptually again, or emotionally, I have some appreciation of your sympathy for free trade. You talk of it in the rawest of terms and maybe there is a purity in that expression. What troubles me is it can only be directional in that it will never be achieved in the purest sense. One of the biggest problems or the biggest area is the nontariff barrier area. To eliminate tariffs is quite simple.

Dr. Crispo: I agree. It is coming anyway.

Mr. Taylor: Yes. So it is not bad; it is the other area. Of course, while there may not be any institutionalized protection, there is a lot of protection that someone with imagination can build in for himself. There is no end to man's ingenuity in making trade difficult or easy. But how do you perceive the degree of accomplishment in arriving at a goal that you embrace, that is, the goal of free trade?

Dr. Crispo: I am glad you mentioned this, because free trade, in the sense of only eliminating tariffs, does not mean anything any more. By 1987, what are we down to? Five per cent on the average. There are some higher; they are fairly critical for a few industries. But the big issue now is nontariff barriers. That means the mechanism for resolving disputes that are going to arise under a free trade arrangement is going to be absolutely critical. There will have to be something such as the International Joint Commission, but it is going to have to have panels.



Good illustrations of this right now are two things the Americans are doing. They are complaining about our lumber because they say our stumpage rates from the west coast are subsidized. That is something which should be examined. It may well be that they are--I doubt it--but somebody should look at that. The other case is of the hogs out west where they are claiming this chemical--I have forgotten what it is--is going to do harm to humans. Those are nontariff barriers.

When such cases arise, there has to be an appeal procedure which does not take five years and can arrive at an interim decision quickly, subject to appeal to the overall body. If that is not there, it does not mean anything. Here, I might ask--because somebody is going to pounce on me on this--what do you do about states and provinces? They are the worst offenders. Look at our crazy rules on liquor and beer. No wonder our breweries cannot compete with those in the United States. We have balkanized the Canadian market and made it so inefficient that it could not compete anywhere.

You are going to have problems in the United States with the buy American policies--the biggest one was in New York State. I am not a constitutional lawyer, but from talking to people who know something about this, I suspect this is going to be a bigger problem for Canada than for the United States. This is an international treaty on free trade between the two countries and the federal power in the United States would be overriding. Whereas in this country, God knows what would happen under our constitution. But under the United States constitution, the federal government could just challenge the buy American policy, because it is contrary to an international treaty and in the United States the federal government clearly has power when it comes to international treaty-making.

Those are the kinds of issues that are going to arise. You are quite right, Americans and Canadians--although we may be a little behind the gate--will be ingenious, as they always have been, at finding ways of keeping the other guy out of their front and back yards. There is going to have to be a mechanism, and everybody knows this, to deal with those kinds of disputes.

Mr. Taylor: That is not even with mechanisms. Those mechanisms become strategies for a delay, for example.

Dr. Crispo: That is why interim orders and such things are going to be important, so you cannot drag the thing out. But your point is very well taken. I have not dealt with all the things I would love to deal with. There are a couple of other issues I want to get in at the very end, but that is an absolutely critical one. If there is not an effective mechanism available to deal rapidly, at least on an interim basis, with these kinds of complaints, neither side has got anything, because we can be--well, not quite as devious, but with practice we could be.

Mr. Chairman: One of the things you said initially was that we have to mechanize our support mechanisms. It has been suggested that philosophically we are miles apart on support

mechanisms. How is a commission ever going to reconcile those things? Or are you suggesting--

Dr. Crispo: What do you mean? You do mean on social security?

Mr. Chairman: That sort of thing, yes. Or stumpage fees on lumber.

Dr. Crispo: Oh, on stumpage fees. I thought you were talking of--because you get a lot of stuff in here from my left-wing nationalist friends saying: "We will not be allowed a social security system. We will have to abolish the post office." God knows what else we will have to do.

Mr. Chairman: Talk lumber, then.

Dr. Crispo: Talk lumber? If it is demonstrated by whatever economic tests you can bring to bear that there is a subsidization of lumber exports from Canada into the United States, then a penalty rate goes on, and it is the same if they are doing it. You cannot have it one way or the other. If either side is subsidizing by one means or another, then I would deem that unfair and on that particular commodity there would have to be some sort of penalty. I do not know how you avoid that.

Mr. Chairman: There would be penalties all over the place.

Mr. Wiseman: I just wonder. Those who have come to talk to us since I have been on the committee are concerned that they could lose their jobs. Industries in my area have talked to me, knowing that this committee had been set up, and in my area a lot of them are American-based companies here in Canada with mother companies in the States. Some of them have told me that if free trade went through, they would probably be warehousing and their products would be made in the States because, as we heard this morning, some of them have the capacity to look after all our requirements over here in a week or two. With their production, they could step it up to that.

Those people are in the business and they are concerned about losing their jobs. You tell us you have a gut feeling, as we all have for these things, whereas these people are in there at first hand. You can go on lecturing, but these people have a chance either of losing their jobs or of having their jobs go back to the United States, the mother plant saying, "We are strengthening over here, but we will send it over there because there are no tariffs."

Is it fair to come in without a lot of data to back it up, as we heard this morning--Bette and some of the other members have asked what the strategy was--and say that there should be free trade when some of these people's jobs are at stake? It is not just some; there are a lot of them.

Dr. Crispo: Let us be clear. Those jobs are at stake anyway. With the General Agreement on Tariffs and Trade tariff

reductions, if it is that much cheaper to transfer production to the United States by 1986-87, they will do it anyway. I do not believe them, frankly. Our production costs are so much lower here.

I think more American plants would put more of their production into Canada if they could be sure there was going to be no interference when they tried to ship back into the United States. We have examples, and not just Northern Telecom, of where they have put plants in the United States because they are fearful about continued access to that country.

Again, some small companies with very marginal operations in Canada, I think, are going to go anyway, but they may go more quickly with free trade because it is just as easy. This is why I do not understand Quebec because, in the case of some of those textile mills, all that one of those big mills in the States has to do is put on another shift and it can produce everything Quebec produces. Quebec is still fourth, and I do not quite understand why.

Do not discount the fact that those who run American corporations want to make a buck. With a 25 per cent exchange rate advantage, with guaranteed access to that market, why are you not as confident that what happened in the auto industry will happen in other industries? In the auto industry they are above the minimum requirement under the auto industry. They are more than meeting their obligations under the auto pact because they have discovered, as I said earlier, that our plants are efficient and we have the dollar advantage.

Mr. Wiseman: But many of those plants in some areas around me located here because of the strategy, or whatever you want to call it, of the federal government. If they were going to sell to the government under a procurement policy, they had to relocate their plants in Canada someplace.

Dr. Crispo: Are these arms? What are these?

Mr. Wiseman: No. There are other things as well, and they have moved them over. I understood they were still in the process of moving some of them they were buying in the States to Canada and this was perhaps a policy of the federal government. Maybe it will not be after these discussions, but it has helped employment in the Ottawa Valley.

2:40 p.m.

Dr. Crispo: Again, my friend over here is going to say it is an act of faith. If we got free trade and nobody had to worry about getting access to the American market because of tariff or nontariff barriers, while some firms would leave because their production in Canada is so small, they were probably going to leave anyway. If it is that small, as the tariffs go down under the General Agreement on Tariffs and Trade, they are going to transfer the production to the United States.

I think that will be more than offset by those who will say, "Oh, my God, there is an operation where labour costs are 25 per



cent less, because of the exchange rate, and where they have, on balance, very efficient plants." Do not assume everything is going to go one way.

Without free trade, there is a great enticement for companies that are finding a niche in the United States, as they expand--and these are not all large companies--to say: "Gee, we have to expand. Where do we put the next plant or the expanded plant?" Where do they put it? In the United States. Not because it is cheaper--sometimes it is, but not always--but often because they want guaranteed access to that United States market in case the barriers get worse. It will not all be one way.

Mr. Wiseman: You mentioned quotas. Were you thinking of the automobile industry? Yesterday we had the Ontario Federation of Agriculture. With free trade, are you thinking free trade, period. Would agriculture be in there as well?

Dr. Crispo: I hope in the long run it would be. As I said, the real problem, if there are not other problems as well, is that the support systems are totally different. I was just on a trip to Britain and they are introducing quotas in milk. I said, "Oh, you fools, do you not know what you are doing?" I have a cream quota, so I know something about this. They said, "Well, we have to do something."

The Americans have support systems but not quotas. We use quotas and marketing boards. They have land banks and all sorts of things, and they are entirely different from ours. I would concede it will be a particularly difficult problem to reconcile the different approaches to agricultural support. When I was referring to quotas, as I recall I was referring to our--

Mr. Wiseman: Basically, are you saying agriculture should be in or out?

Dr. Crispo: It is going to be a major transitional problem. It may even take longer than the transition for the rest of the scheme because of the differing ways in which we support the system.

I want comprehensive free trade and I have a feeling the Americans are going to say, "If you want comprehensive free trade, we are going to have comprehensive free trade." I do not know what they are going to want to protect, where they are going to want a special deal. If anybody is going to try to protect anything with a special clause, it will be us.

The top priority will be the cultural area. Maybe the second priority should be agriculture, but I do not know how many things we can get. These characters are not going to be pushovers. We are not going to get anything for nothing. I still say 80 per cent of our trade is with the United States. I am going to be honest with you. Five years ago only 60 per cent of our trade was with the United States.

That is because of the exchange rate. The American dollar went way up and ours went down in relation to theirs, but up in relation to everybody else. It is the natural pull of that market plus that exchange rate differential. We are so locked into that now and we have no guarantees.

In passing, I want to mention the sovereignty issue, because there are those that say, "If we get into bed with those Yanks any more than we have economically, there goes our political sovereignty." Again, I think we have it totally reversed.

The main example of what is bothering me is the following: If we had a comprehensive free trade treaty and we had the mechanism to sort out disputes, surely we would be more sovereign than we are now, day in and day out going down to Washington on bended knee, either from Ottawa or from a provincial capital saying, "Would you please make an exception in this bill of this that or the other thing?"

Is that really a sovereign relationship with the United States? I cannot find words to describe the way I feel. We have to do it. I understand that, but that hardly bespeaks a sovereign nation. With a free trade treaty and with a dispute-settling mechanism, I think we would be more sovereign.

I do not think we will join the United States. That is the other thing I wanted to mention. If anything breaks up this country, it will be lack of free trade. This is in my notes, and you will all disagree with me. Be my guests. If Ontario vetoes free trade and we do not get it and do not even try hard for it, I do not know how long the east and the west are going to put up with it.

I am dreadfully afraid that without free trade the US standards of living will continue to rise, while perhaps ours will hold its own. It certainly will not rise as fast. The disparity between the standard of living of the two countries will widen and at some point--I cannot tell you when--some part of this country is going to say, "To hell with it, let us join them."

You can say that is not there. Look at the polls. I was in the west for a year. There is an undercurrent out there. Calgary is like a little Houston.

Miss Stephenson: It is little Houston, for God's sake.

Mr. Wiseman: That is because of the oil people.

Dr. Crispo: Whatever it is, there is an undercurrent out there.

Mr. Wiseman: Most of the big oil people come from the United States.

Dr. Crispo: It bothers me. I am a Canadian through and through. I lived in the United States for five years. I do not want to be an American. I want a strong Canada. A strong Canada

has to be strong economically. To be strong economically, we have to have access to some market that is many times larger than ours.

I come back to your question about the alternative. What is the alternative? We had Trudeau's so-called third option--a pipe-dream. There is a thing called the Atlantic. I actually sent him a globe. I do not know whether he got it. They probably thought it was a bomb when they saw my name on it. I said: "Blue is water, other colours land. Big blue Atlantic, big blue Pacific: formidable barriers to trade." Then I drew lines between Canada and the United States. I said: "Roads, railways, canals, all sorts of things. Trade wants to go north-south, not east-west." I could not get through to the man.

We saw what happened even before the dollar went up. The percentage of our trade with the United States went up even while he was enunciating this so-called third option, which was going to lead us to diversify. It is heads in the sand; that is what it is. That is what I say in the title.

Mr. Morin-Strom: One of the things that has been brought forward, especially by the American administration's position on free trade and advocacy for free trade, is the need for a level playing field. Do you feel there has to be a level playing field between the two countries? If so, what does the level playing field involve?

Dr. Crispo: Let us talk about what it does not involve. It does not involve fixed foreign exchange rates. There have to be flexible foreign exchange rates; there just have to be. That is the adjustment mechanism. If we start to do very well under free trade, I doubt it will go up. If some of you feel we will do worse than we are doing now, it will go down. That is a self-correcting mechanism. I have not heard one American of any repute say that a level playing field embodies fixed foreign exchange rates. If they do that I say, "End of discussion." I would not go on any further. That is nonsense.

It does not mean the same wage rates. Those are negotiable items. They are subject to minimum wage legislation. If we are foolish enough to price ourselves out of the market, that is our problem.

What it does suggest is the thing we were talking about, namely, subsidies. If there is more subsidy of a particular industry in one country than in the other, then that is a matter which would suggest penalties for those goods if they flow between the two countries.

Miss Stephenson: You first have to define what a subsidy is.

Dr. Crispo: I know. That is why it is going to be debatable. What is a subsidy? Anything that indirectly or directly comes from the public sector, contributing to the production of a good or a service, is a subsidy.



You could say, "That is public education." Do not worry. We both have public education systems. When it comes to special concessions such as tax concessions--

Mr. Morin-Strom: The national health program?

Dr. Crispo: No, I do not think the national health program. They pay premiums under private health coverage. We pay premiums on ours. No, I would not argue that is part of it.

I have indicated the main thing is direct or indirect subsidies of the traditional, industrial type, such as subsidized loans, subsidized stumpage rates, if there is such a thing. That is a very difficult one. What should be the stumpage on a tree on a slope in British Columbia? If Washington has equivalent trees and is charging more, it is worth looking at to see what the rationale is. I do not know. I am just speculating. Those are the things you would have to look at.

Mr. Chairman: Their trees are on private fields and ours are on public fields. From what I understand, you are saying every situation such as this evokes a penalty one way or the other. It sounds as if we are going to have penalties all over the place and more barriers than we have now.

Dr. Crispo: No, I do not think that. Once people know that if there are undue subsidies there can be appeals and penalties, we both will move away from this type of thing. We will be very conscious of that.

2:50 p.m.

Mr. Morin-Strom: Does not that imply that there will be forces brought to bear to bring governmental legislative policies into line, one country with the other, to avoid those happening?

Dr. Crispo: In some areas there will be. For example, if we decide we want to heavily subsidize industry in Cape Breton, then we had better put an industry in there which does not export to the United States. That is what it means. It does not mean we cannot do it. It simply means if we put heavy subsidies into Cape Breton for export to the United States, we are in trouble.

Miss Stephenson: That is direct dollars to the Cape Breton industry.

Dr. Crispo: Yes. That becomes a subsidy.

Miss Stephenson: And it is not health care insurance; it is not unemployment insurance commission; and it is not workers' compensation.

Dr. Crispo: No. UIC is a heavy cost to us. They are not going to be appealing that.

Mr. Wiseman: But John, on the subsidies, what makes you think--and the gentleman over here was mentioning it this morning--that, as small as we are, if we went to free trade and

the United States decided to subsidize some commodity and we as a small nation tried to take them on, they would probably tell us to use an expression over here to go to hell and try to get away with it?

Dr. Crispo: They have a treaty.

Mr. Wiseman: What will we have after that?

Dr. Crispo: They would abrogate the treaty.

Mr. Wiseman: Oh, sure.

Dr. Crispo: Lipsey and others have argued for heavy penalties in the event of abrogation. I do not think that is realistic. If we get free trade with the United States and a mechanism to deal with disputes, at some point--and I am going to be in trouble over here again--you have to rely on something that is called goodwill. Two nations, one bigger than the other admittedly, have entered into a free trade arrangement.

Well, I do not want to be an American. When I speak down there I always say, "If we have to share a continent with a monster, thank God it is you." I really mean that. I do not think Americans are that unfair. You have to assume the worst, that they get in and they find one industry losing and they say: "We will fix them. We will abrogate the treaty."

Mr. Wiseman: But we heard yesterday about agriculture where we are subsidizing about 17 per cent of every dollar in Canada, where they are up about 25 per cent and Great Britain is 35 per cent. You know what happened to the hog market.

Dr. Crispo: Yes, I have 15 hogs.

Mr. Wiseman: They said we were having an unfair advantage because we were subsidizing. They are subsidizing corn, which is the same darned thing in my estimation; yet they won it. They just went ahead and did it.

Dr. Crispo: Oh, they will--

Mr. Wiseman: I would not have any confidence they are not going to do it after to us.

Miss Stephenson: That is because we do not have any--

Dr. Crispo: We do not have any mechanism right now to appeal. There is no treaty, no mechanism, no appeal procedures; there is nothing. That is why I was saying we are such a terrible--

Mr. Wiseman: They got court cases on that, though, did they not?

Miss Stephenson: No. That was first--

Mr. Wiseman: I thought there was a court case. They told us so yesterday.

Miss Stephenson: There are two hearings held in this circumstance when it is unfair trade.

Mr. Crispo: We have to go to the International Trade Commission.

Miss Stephenson: Yes.

Dr. Crispo: I do not want to push this as an analogy. Just as the Israeli treaty alleviates certain things that apply in general in the international trade sphere, we would have to be subject to the same thing. The only thing that governs trade between Canada and the United States is the treaty and the appeal mechanism under the treaty.

We are not under those other procedures. There are special procedures between our two countries. We are not under the general procedures applying to Australia, New Zealand and the rest of the world. We are exempt. This is a special bilateral treaty between Canada and the United States.

I had this terrible argument with--forgive me--the members of the New Democratic Party on the national committee that was going on. They said, "We will never get a fair deal." I asked, "Is that your only objection?" They saw the trap coming and said, "No." I said, "Before you say we will never get a fair deal, let us go and try."

I am the first one--I have already told you--if they had even mentioned exchange rate control, that would say, "End of discussion." That is totally unrealistic for both of us. Canada should not go down there on bended knee and deal at any price. I do not want to do that.

With this example you gave, if we have a treaty on free trade, then there is a separate and distinct mechanism for dealing with disputes under that treaty between Canada and the United States that has nothing to do with our other mechanisms for dealing with New Zealand beef or lamb or whatever it is that comes from there. That has got to be part of it. Our two countries are now under a different arrangement.

The same thing is true on our side. We do not go through our--we have antidumping procedures now. That would no longer apply to American goods. If there is a dispute about dumping of American goods, it goes under the appeal mechanisms that have been set up under the treaty exclusively between Canada and the United States.

Mr. Wiseman: From what has happened to date on a lot of those things, what gives you confidence it will happen from this point on? It has not up to now. In my opinion, in a lot of cases they are bigger and pretty well tell us what they are going to do and we either do it or go by the wayside.

Dr. Crispo: I think you have heard from several people about the so-called window of opportunity. I do not know whether



it is even open any more. We can go down and try. If we cannot get a deal we can live with, so be it; we are stuck with what we have.

Mr. Wiseman: They can get into free trade and then use their size to say: "To heck with you. I am not going to do that. We have a lot of corn down here. We are going to subsidize such and such and you--"

Dr. Crispo: Wait a minute. If they subsidize it to sell to the rest of the world, that is none of our business, just as when we subsidize and sell to the rest of the world. We are only talking about trade between the two countries. If you want a common market, which I do not--

Mr. Wiseman: No. If they subsidize something that is eventually coming back into this country and they tell us to go jump in the lake, how do we get out of that agreement?

Dr. Crispo: At that point they are in abrogation of the agreement. There is an appeal mechanism and there are penalties. You say they refuse to pay the penalties. I would say judicial mechanisms would be available to us or this thing does not mean anything. As far as abrogating the treaty is concerned, another thing I would insist on if I were Canada, or indeed if I were the United States, would be that neither party could abrogate the treaty without due notice. In that case, it might have to be as much as five years from our point of view. The adjustments we will make to accommodate this are far more than they will make. It is the flea and the elephant.

You cannot assume that everything will always work. It is possible, but I do not believe it. In terms of their international relations, I do not think the Americans would risk being seen as a bully boy to Canada. We are good folks around the world because we do not count. We do not have armies and colonies. People like us because we are nothing.

Mr. Taylor: We are harmless.

Dr. Crispo: Exactly. I figure these are bogymen. To answer your question, I would insist that as part of this there be an abrogation period so that you cannot abrogate overnight. I will not argue about the period. I would love to say it would be five years for Canada if the United States wanted to abrogate.

Guys like Lipsey, for whom I have great respect, think the Americans might even accept a differentiated period, since it would not hurt them as much. We could give one year's notice and they would have to give five years' or something like that. I do not think they would accept it.

Miss Stephenson: He also suggested differential implementation on either side of the border.

Dr. Crispo: I do not know whether he says we have to have it. He says we should try for it. I do not know whether we can get it.

Mr. Chairman: It would be tougher for us and, therefore, it would--

Dr. Crispo: I agree. We are this little thing here and they are this great, big monster down here.

Mr. Chairman: I do not understand the sanctions. You are dealing with a country that constitutionally can go ahead and abrogate the treaty. The laws it might pass would take precedence over the treaty. What sanctions do we have?

Dr. Crispo: They would be built into the treaty. There would be penalties built in for abrogating without due notice and so on. I do not know what else you can put in. I do not know what you are looking for. If you are asking, "If the Americans decide to get nasty and hostile, is there anything we can do?" the answer is "No." However, they can do that to us right now and kill us.

Let us not kid ourselves. Eighty per cent of our trade and more than 20 per cent of our production in this country goes to the United States. If this bogymen you are all so fearful about wants to wake up one morning, roll over on us and crush us, it could do it now.

Mr. Chairman: As I understand it, you are asking to have the United States change its whole tax attitude towards industry in many instances in many states.

Dr. Crispo: Only if there is an appeal. I did say "if."

Mr. Chairman: That has to be built into the agreement, does it not?

Dr. Crispo: Only in the sense of unfair competition. There will have to be something about unfair competition. If Canada appeals and the tribunal upholds the appeal and says, "These goods coming from the United States are unduly subsidized," for whatever reason, then the Americans have a choice. Either they withdraw the subsidy or they stop trying to sell the goods in Canada. If they do not want to change their laws, the goods do not come into Canada.

You are asking, "Whatever happened to free trade?" Someone mentioned level playing fields. We have an interest in that too. If we want to get into a battle of subsidies, we will be crucified. The Americans are not the only ones who should be interested in a level playing field. If that is the language they use, we will use it. We have as much interest in that as they have.

3 p.m.

Mr. Chairman: The penalty has to be worse than not letting them come into Canada. That simply--

Dr. Crispo: No, that is good.

Mr. Chairman: Yes, but that prevents us from competing in their market.

Dr. Crispo: Oh no, we have not been found guilty by the joint tribunal.

Mr. Chairman: No, but if they subsidize a product and we say, "Okay, you broke the deal. You cannot bring that product into Canada."

Dr. Crispo: The joint tribunal says that.

Mr. Chairman: That does not help our industry very much in competing in the United States.

Dr. Crispo: Why? We have not been penalized. We are still free to move in there with everything we have.

Mr. Chairman: Except that their industry is operating with subsidies. We are talking about a hypothetical situation that we hope would not exist if we negotiated a good agreement.

Dr. Crispo: No. I would love to say: "Yes, you are with me. We are together." We cannot rule out these possibilities. That is why the mechanisms for dealing with them, the appeal procedures and the penalties, are important.

I am sorry to repeat this, but everybody talks about the Americans wanting a level playing field. If you want to use that term, it is more important to us for us to insist on a level playing field than for them to do so. When it gets to the opposite of level, where it is not level, I know which way it could tilt.

Mr. Chairman: But you are telling, say, Schneider's meat, which is in my riding, that it should be streamlining its operation in order to compete with Swifts in Chicago. They should be ready to go. They should take one particular area where they are really good and get into the American market. Then Swifts might breach the agreement in some way. We say, "You cannot come back into Canada."

Dr. Crispo: Schneider's is still in the United States, because it has not been found guilty of breaching anything.

Mr. Chairman: Schneider's cannot compete in the United States because perhaps Swifts is in bed with the government of the state of Illinois and has special deals.

Dr. Crispo: This is the bogymen. If the bogymen is there, he is going to get us anyway. I suppose what you are saying is, "We are going to be more vulnerable to the bogeyman under free trade than we are now."

Mr. Chairman: Most definitely.

Dr. Crispo: I suppose if you have that sinister view of the United States, you are right. I do not have quite as sinister a view. I had an opportunity to talk to the chairman of the committees of the House and the Senate a few months ago. As you know, the Americans are sitting there waiting to see what we want to do. There is a lot of goodwill down there. That does not mean we get anything for nothing. I said that before.



We had better send down some of our toughest bargainers, because they are not going to give us a thing for nothing. Having Uncle Ronnie up to Quebec and putting on a lousy show for him, no, that is not going to make any difference. When you sit down with the Yanks, talk turkey. We had better have our sharpest people there.

Mr. Ferraro: I have two questions. The first one is along the lines you have touched on. Perhaps you could expand a little on it.

If you do not have the sinister view that the bogymen is not reality, what would you say to the arguments we all read about? Step aside from free trade for a minute, if you can. What if we were going to go for, and I shudder to use the words in your presence, "liberalization" or "trade enhancement" along the lines of GATT and the next round and a multilateral agreement.

People at the card table say we do not have a bad hand to play--for example, we are the largest trading partner and we are friends; they have a lot to lose politically and internationally; they have at stake two million US jobs related to the degree of trading they have with Canada now; precedent to date has not been too bad in our favour--and that we would do all right at the table.

Dr. Crispo: I am the one who wants to go down there.

Mr. Ferraro: But you want to argue free trade. I am talking about not necessarily arguing free trade, but liberalization under the GATT agreements. I am not arguing that. I am using the argument that has been presented by some people.

Dr. Crispo: GATT will tell you the problem is nontariff barriers, not tariff barriers. If you think GATT is going to get anywhere on nontariff barriers, with all the language problems and everything else, I would not fall back on it. I would really love to think GATT was going to get somewhere.

Miss Stephenson: Within the next decade?

Dr. Crispo: There is this terrible dispute over European protection of agriculture. That alone may foul up the GATT negotiations. As you saw in the last round, they could not even agree on the order in which they were to deal with items. I just got back from Europe. You have been there. The power of the peasants--and I do not think there is a better word for them--in France and Germany is staggering. They have the most inefficient agricultural system on the face of the earth, but it is a fantastically strong political lobby; it makes our farm lobby look like nothing.

Do not count on GATT, for that reason alone. There are many other reasons.

Mr. Ferraro: Let us get away from the free trade thing; when we were playing this hand with the United States in the context of liberalization, we recently went down there and presented the facts about the steel situation; they backed off.

That would to some degree support the fact that maybe we would not do too badly.

Dr. Crispo: The thing that makes our hand look weak is that 80 per cent of our trade is with them, and I think 12 per cent of theirs is with us. That is a pretty stark comparison.

Mr. Ferraro: Is it 78 to 21?

Dr. Crispo: I am sorry, I am just trying to recall the figures. Okay, but that is still a tremendous disparity, and that puts us at a disadvantage. You are right; Americans like us. It is almost as simple as that. There is a tremendous amount of goodwill down there and goodwill does not count for nothing in this world.

There is an administration that is in, I am afraid, its dying days, but there is an opportunity there. I would not be going down assuming the worst. When I said tough, I meant tough, because they are not going to give us anything for nothing, but we are not helpless. We are their best neighbour, their major trading partner, their greatest ally--although at times, I wonder about it--and those things count for a lot.

Mr. Ferraro: You are talking in either scenario whether we are discussing free trade or just liberalization?

Dr. Crispo: I do not think you are going to get liberalization. You are back to sectoral stuff, you are back to issue by issue. The federal government tried it briefly and it was a nonstarter because the problem was pairing up winners and losers. You cannot have all winners. We have this nice list, we said, "We want in on steel, cement, chemical," everything where we cannot lose. "Isn't that a wonderful list?" From our point of view it is. "Where is your list?" They said, "Do not worry, we have one," and they made another list. We said, "Wait a minute; we are vulnerable in those industries."

That is the point. You cannot just go down one industry at a time and pull out agricultural implements. Everybody says, "We did it in agricultural implements; let us go do it in this and that." That is not on. There will be tradeoffs. You want this and they want this in return.

Again, they are not interested and GATT and will not allow us to do it. The only reason we got away with the auto pact was because nobody appealed. If they had appealed the auto pact would have been thrown out by GATT because it was a sectoral agreement, but they accepted it.

Mr. Ferraro: Miss Stephenson asked my question about the lack of information, so I hope she will bear with me when I ask her pet question about industrial strategy. I do not know what the hell the industrial strategy of this province or this country really is. My question specifically is, can we even attempt to have an industrial strategy, when one considers the fences built around labour, government and business?

Dr. Crispo: Wow! Industrial strategy. We better not get

started on this. Let me try to be brief, because it gets me so mad. Herb Gray made me think about this, because I knew if Herb Gray was for it, it was wrong. It turned out that he was.

Mr. Taylor: He speaks very highly of you.

3:10 p.m.

Dr. Crispo: Yes, I am not welcome in Windsor. There are basically two types of industrial strategy. One is the blueprint approach, which Herb was on to for a while, and there are signs that old Sinc Stevens has the disease now. The winner-or-loser approach is that the government knows all; it will designate this as a winning industry and do things to help it and it will designate this as a loser and say: "Bye-bye; we will help you go, but you are going." That is not on, economically or politically. They do not know which are the winners or losers any more than you or I do. Politically, you cannot say to textiles publicly in Quebec, "Loser, bye-bye." Let it go, but do not say, "Loser, bye-bye."

The other approach to an industrial strategy is called the framework approach, which has been featured in a work by two of my colleagues, Jim Fleck and Joe D'Cruz. They have a book out called Canada Can Compete. They are saying, and I totally subscribe to this, if you have to have an industrial strategy, if you have to use such a stupid name, then think of it in the framework approach. That means a comprehensive set of overall policies within which business can know what is going to happen and fly on ahead--business tax policies, research and development policies, investment incentives, trade policies, free trade with the United States. In that sense, if you want to talk about it, that is the only sensible form of industrial strategy.

Mr. Ferraro: You exclude labour.

Dr. Crispo: Yes.

Mr. Ferraro: You do not like the Japanese approach.

Dr. Crispo: For Japan. I spent a month there. It is a wonderful approach for Japan.

Mr. Ferraro: Why would it not work here?

Dr. Crispo: Rather than get into that at length, I finished a study for the C. D. Howe Institute last year called National Consultation: Problems and Prospects. I did not write it off, but if you read that little booklet, which is not too long, you will find a history of the frustrating efforts of labour and management and government to try to work together.

If I can oversimplify, I think it is true to say--Japan is the exception--in countries in western Europe where labour and management and government have tried to co-operate, with some limited success, such as the Scandinavian countries, Germany and especially Austria, labour is a respected social partner, not a social outcast as it is in this country.



We had the National Citizens' Coalition trying to get rid of union security and union dues checkup as a violation of the Charter of Rights and Freedoms--which, by the way, it probably is.

Mr. Ferraro: Did you send in a donation?

Dr. Crispo: No. I totally disagree with that. I believe in union security and union dues, but let us not get off on that tangent. My point is that labour has no respected place in our system. We have a law that says it has the right to exist and that is all we have. You say to labour, "Come on, co-operate," then you impose wage and price controls, which is always only wage controls. It is nonsense.

Remind me to give you a footnote about Japan because I do not understand Japan. If you go over to Germany, they speak of social partners. You never turn on the boob tube, there is never a debate about anything where there is not a representative from the DGB, the Deutscher Gewerkschaftsbund, stating labour's point of view. They are part of the system, part of the labour courts, part of the manpower, part of everything. They are plugged in.

The footnote I wanted to add on Japan is that Japanese labour has no power at all in the system. They do not even have national unions. They have enterprise unions--"company unions" we call them. They are not quite the same, but they are in between. They are very much a junior partner in the system, but there is something about the culture and there is lifetime employment and seniority wages which, by the way, apply to about only 35 per cent of the population.

Do not let the Japanese fool you. What a con job they have done on the world. They do well by about 35 per cent of their people and the rest live in a jungle. It is terrible. It is called a dual labour market, but it is a terrible place, except for the 35 per cent who are in those cosy little situations and are fine.

I have argued for years that you cannot take systems that work well in other countries and dump them into our system, because the attitudinal and institutional structures are totally different. I would not look for an industrial strategy with labour, management and government plugged in and sitting around the table, saying: "Aha, consensus. This is what we will do."

Mr. Ferraro: If you say that labour on one side and business and government on the other--assuming they could get together, which they probably could--cannot get along with one another, would you not have catastrophic results if you went into a free trade agreement?

Dr. Crispo: No.

Mr. Ferraro: Without labour's co-operation?

Dr. Crispo: No. I do not think so. Labour is in for some rough adjustments anyway, along with management and government in this country. Do not kid yourself. There is not a solid front in the labour movement. Privately, there are several union leaders

who want free trade. There is a party line, just as there is in most other institutions. I am not picking on labour when I say this.

Let me give you another of the hidden agendas. My good friend Mel Watkins and I debate all over the country. He is out left somewhere and a nationalist. I guess that makes me a continentalist or some dreadful thing. We get into these--

I am sorry, I have forgotten the point I was going to make. Mel was a good illustration of it.

Mr. Ferraro: Would you not have catastrophic results if you did not incorporate labour in a decision for free trade?

Dr. Crispo: No. Labour may resist, but part of labour will not resist. That is my point. Part of labour will benefit. You cannot tell me that the woodworkers, the chemical workers and most of the resource workers are not going to do well by this.

Mr. Ferraro: Then you started talking about hidden agendas and labour not having a united front.

Dr. Crispo: Yes, the hidden agenda. Mel says to me and I say to him, because we just debate and we know what we are going to say to each other--and this is not something to be discounted; I do not think I am guilty of this--but he says, "You want free trade with the United States," and some of you will cotton on to this right away, "because you think it will prevent this country from going more socialist than it has already gone." I say, "I had not thought of it that way, but if that is my hidden agenda, then yours is that you do not want anything to do with the United States because you cannot take this country down the socialist road more than you have already taken it."

I do believe there is an element on both sides; I am not going to say it is on one side. There is this political factor. If we get into free trade with the United States, we are then held on this right-wing worship of free enterprise and we will be circumscribed. That may be behind some of the questions that were asked like, "Will we not be able to have a national health plan?"

Mr. Taylor: Close, anyway.

Mr. Chairman: Some of the nationalists could even have fun with that.

Dr. Crispo: All right. I do not think I am for free trade with the United States just because I think it will preserve free enterprise in Canada. I had not thought of it that way. I want markets for Canadian goods. That, to me, is so important. I am not totally an economic determinist, but there is a lot of that in me. This country will do well, it will survive as a sovereign entity and we will remain Canadians as long as we do well economically.

I think that is something we should never forget. Part of our survival depends on our economic viability, and we are not

viable as a world unto ourselves. The very fact that 80 per cent of our exports are already going there shows how vulnerable we are. We need a mechanism, a treaty and an appeal procedure to protect what we are most vulnerable to, American retaliation. We have no mechanism now except bended knee every day in Washington. I bet there is not a day when we are not down there from somewhere on bended knee saying: "Please, remember us. We rescued your hostages in Iran. Have you forgotten? Exempt Canada." It bugs me. That is degrading, I think.

Mr. Chairman: Even you, when you talk about free trade, talk about possibly having a bit of a hidden agenda regarding cultural matters. In other words, we would have a bottom line beyond which we would not go; there would be some things we would preserve.

Dr. Crispo: Yes. I do not know quite what they are. I put that in because everybody says it and I want some Canadian culture too, although I have difficulty finding it except in Quebec. Even there, where do they go for their vacations? Florida. Real culture.

I guess we all want the Canadian Broadcasting Co. If we want to put some of our tax dollars into the CBC, they put some money into public broadcasting, and that is also tax deductible.

Are we talking about live theatre and culture and the ability to subsidize some things Canadian? I think we would want that. We would want to make it clear that we are going to have a Canada Council and an Ontario Arts Council. You have something here.

But again, why could not we have those anyway? That is why I keep adding this. Maybe it is books. We do not want them publishing books in Canada.

Miss Stephenson: Not without paying royalties to our authors.

Dr. Crispo: Yes. Okay.

Mr. Chairman: The problem is that once you start doing that, why can they not present sectors to us too? Is this not where the negotiations are bound to go from the other end?

3:20 p.m.

Dr. Crispo: That is why I said, "with as few exceptions as possible." That was almost my opening gambit. But I think we may need some. I am sorry I have not given as much thought to the specifics on this as perhaps I should have. I know we will never get it through Canada unless there are some protections for some of our--I will not say sacred cows; whatever they are. I mean there is something here we want to preserve.

I have difficulty figuring out why we could not preserve it anyway with free trade. The big thing Canadians take pride in is that we are not a melting pot and they are. But they are no longer



a melting pot. They have all these characters coming from the Caribbean, Latin and South America, and they are not going to be melted. So you may have some diversification down there as well.

There are all these fears that we are going to be melded into this thing and that 600 or 1,000 Italians in this city are going to be Americanized. I do not think that will happen, but we are so vulnerable to it now. I do not understand why people think free trade is going to worsen this stuff. But that is the hue and cry.

You must have had the arts groups in here. There will be no theatre; there will be no culture; there will be nothing.

Interjection: No, we have not, although we did nationally.

Miss Stephenson: The one representative of the publishing industry came in and told us he was a continentalist and he wanted the border opened totally.

Dr. Crispo: Was that Ron Base?

Miss Stephenson: No, that was Al Heisey.

Dr. Crispo: The only thing I warn you of, when you get groups in here that want special exceptions made, be careful that they are just not wrapping some narrow, economic, vested interest of their own, called profit, in a Canadian flag.

That is another thing. If you wrap it the Canadian flag it makes it sacred. You must not touch that.

Mr. Ferraro: You said, "I am a Canadian person out of Ontario." I am not sure--

Dr. Crispo: Yes, I am, but I do not know what I have, wrapped in a flag, that I am depending on that I want you to protect. I am more likely to be a Canadian 20 years from now, in a prosperous country that wants to remain united, if we have a free trade with the United States and we are prospering economically as well as politically and socially. I do not know what vested interest I am protecting.

Mr. Ferraro: What are you promoting?

Dr. Crispo: I am promoting a point of view. I am an advocate.

Interjection: But you wrapped it in a Canadian flag.

Dr. Crispo: No, I said I do not think free trade was incompatible with the sovereignty of this country politically, and the survival of the country. Indeed, I went further when I said that in the long run I would actually reinforce this by making us more prosperous. I am an advocate.

Mr. Chairman: What you were saying is that you were

looking at Canada first--

Dr. Crispo: And Ontario second. I am a Canadian first. I am not ashamed of it.

Mr. Taylor: What you are saying is to beware of people with ulterior motives. You are speaking in the name of patriotism, a Canadian--

Dr. Crispo: Yes.

Mr. Chairman: --speaking of what you suggest some say is your own ulterior motive about much of your circuit being in the United States. This begs the issue of movement of labour which, I suppose, is going one step further than free trade; it is a common market. What is your view on that?

Dr. Crispo: There are three stages. There is the common market which Europe is supposed to be but is not; there is a custom union when you have common tariffs, and so on; and then there is free trade. I am only at the free trade stage although I did find it reprehensible. By the way, it works both ways. I cannot understand why we are very much more lenient than the Americans but, literally, Americans cannot speak in Canada for a fee and a Canadian cannot speak in the United States for a fee unless they have permission from the other country's labour department to do so. Even entertainers have to have a permit. I would hope that with free trade that sort of nonsense would go because people do it to spite the law, and that is not a good thing.

Mr. Taylor: Ministers do it all the time.

Dr. Crispo: But they are not paid a fee.

Miss Stephenson: But no fees.

Dr. Crispo: You can go and speak on a street corner in New York City for nothing any time.

Mr. Chairman: That begs all kinds of questions about where you draw the line.

Dr. Crispo: I think what you are asking is whether I believe in the free, permanent movement of people back and forth. No, that is a long way down the line. I cannot imagine coming to the point where I would advocate that.

Mr. Hennessy: You would say somebody like Springsteen can come here but has to get a permit to perform in Canada.

Mr. Chairman: We would have to show immigration that we did not have him. That was less difficult for him than perhaps for the professor.

Dr. Crispo: Right. The way they do it in the United States is you put that as the subject and say it is from a Canadian point of view. How can an American give a Canadian point

of view?

Mr. Chairman: Dr. Crispo, the last time I heard you, which was two or three years ago at the University of Waterloo, I came away extremely angry. I cannot even remember what the subject matter was, but you obviously have an entertaining way of presenting your point of view. It certainly caught our attention. We listened and we are pondering it, and I appreciate very much your taking the time to come here. Thank you.

Dr. Crispo: Thank you. I will leave these here. I do not have enough for everybody, except for the notes I used today, but there is some supplementary material for anybody who wants to take advantage of it.

Mr. Chairman: Thank you very much.

Everyone has his plane tickets and itinerary for the rest of the week. We will see you either on flight 828 or, in some cases, at the hearing.

The committee adjourned at 3:26 p.m.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, SEPTEMBER 4, 1985

Morning sitting



SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)  
VICE-CHAIRMAN: McGuigan, J. F. (Kent-Elgin L)  
Bennett, C. F. (Ottawa South PC)  
Cordiano, J. (Downsview L)  
Ferraro, R. E. (Wellington South L)  
Knight, D. S. (Halton-Burlington L)  
Mackenzie, R. W. (Hamilton East NDP)  
McFadden, D. J. (Eglinton PC)  
Morin-Strom, K. (Sault Ste. Marie NDP)  
Stephenson, B. M. (York Mills PC)  
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Hennessy, M. (Fort William PC) for Mr. Bennett

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Ontario Forest Industries Association:

Bird, I. D., President

Boswell, E. F., Senior Vice-President, Pulp, Forestry and Wood  
Products, E. B. Eddy Forest Products Ltd.

Macdonald, K. L., Group Vice-President, Abitibi-Price Inc.



LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, September 4, 1985

The committee met at 10:07 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Shall we get started, gentlemen? As a matter of interest to members of the committee, I understand Mickey Hennessy is now a permanent member of our committee, replacing Claude Bennett, who has retired from active politics. No, I am just kidding.

Mr. Taylor: Which part of your statement is accurate?

Mr. Chairman: I understand Mickey Hennessy is a permanent member of our committee. Claude Bennett has retired from our committee. So I welcome you, Mr. Hennessy.

I might also indicate that tomorrow morning we are going to hear from the brewery industry. Tomorrow afternoon, we do not have a session planned, but I would like to meet with the planning and priorities subcommittee, Mr. Traficante. At that time we hope we will talk about opinions that are going to go into our initial report. I have not actually asked anyone to tip their hand until now as to what they are thinking but perhaps they can indicate.

Mr. Morin-Strom: With an issue that important we should be looking at the whole committee involved in those discussions rather than a subcommittee.

Mr. Chairman: We will not be going very far in talking about anything of that nature until we talk to the whole committee, but I would hope we could give Mr. Traficante some direction as to what thinking is occurring in each of the caucuses and then we could discuss it. Do you think it should be on the record before we go?

Mr. Mackenzie: If we are starting to give any kind of direction to the staff of the committee, then it is essential that it be a full meeting and not just the steering committee.

Mr. Chairman: Are you thinking of an in camera meeting?

Mr. Mackenzie: I would have no objection to it if what we are doing is giving some direction, although I do not see why it should necessarily be in camera.

Mr. Taylor: I do, Mr. Chairman. If we are going to indicate the nature of the report, then it is essential that it be confidential, because this committee reports to the Legislature and I do not think the Legislature should receive its information via the media.

Mr. Mackenzie: I am not sure how far we can go on the actual committee report yet when we are nowhere near through the hearings, including the vital Washington meeting. But if the intent is to summarize and lay out what we think we have heard and where we are going to date, then in my opinion it has to be the full committee.

Mr. Chairman: I would concur with Mr. Taylor. I am not that concerned whether or not it is the full committee, but it would have to be in camera if we are going to set out our views at this stage. If it is the wish of the committee to meet as a whole tomorrow afternoon, I have no objection to that.

Mr. Knight: I would agree that, for the purposes of giving some direction to our researcher, it should be the full committee that meets. It should be in camera, however. If the priorities and planning subcommittee wishes to meet after that or at another time, I am agreeable.

Mr. Chairman: That would be the only purpose in meeting; they would not need to meet otherwise. I accept the direction of the committee. We will meet as a whole tomorrow afternoon at 2 p.m.

With the housekeeping out of the way, I welcome the representatives of the Ontario Forest Industries Association. I thank you gentlemen for having postponed this meeting at least once that I know of at our request, and I thank you for accommodating us by coming back today.

The president of the association, Mr. Bird, is in the centre of the three gentlemen whom we are facing. As we look at him, to his left is Linn Macdonald from Abitibi-Price, and to his right is Mr. Boswell from Eddy Forest Products.

Mr. Bird, you have given us a brief. Would you prefer that we hold back on questions until you have made your submission?

Mr. Bird: I would prefer that, with the committee's indulgence.

Mr. Chairman: Fine. Go ahead.

#### ONTARIO FOREST INDUSTRIES ASSOCIATION

Mr. Bird: It is a pleasure for us to be here. We have followed the deliberations of this important committee. We note that you have been briefed by the Ministry of Natural Resources on forestry matters generally. We also note that you have received the presentation from the boxboard people, among others. Perhaps our presentation today on behalf of the Ontario Forest Industries Association will complement the information you have received from other sources.

Just a word about the association. It was organized in 1943 and has prospered since that time. The current membership is 23 companies, and a list of the member companies is appended to the presentation. The member companies account for about 80 per cent of the volume of forest products produced in Ontario.

The forest products industry is a major Ontario employer, providing 70,000 jobs in woodlands and mill operations in Ontario and at least as many more in related service industries. Twenty-one Ontario communities exist primarily because of the forest products industry. Pulp and paper represent 80 per cent of the value of Ontario forest products; lumber and secondary products represent 20 per cent.

Canada produces 33 per cent of the world's newsprint, 28 per cent of the world's market pulp and 11 per cent of the world's softwood lumber. Canada is the world's largest exporter of manufactured forest products, supplying 63 per cent of the world's newsprint exports, 34 per cent of the world's wood pulp exports and 45 per cent of the world's lumber exports.

Canadian forest industry shipments were valued at \$23 billion in 1981 and accounted for 16 per cent of the country's total export trade. Ontario's share of Canada's forest industry shipments was 23 per cent for pulp and paper and 10 per cent for lumber. Those statistics are contained in the Canadian Pulp and Paper Association brief that was passed out to you.

Markets vary from product to product. While Ontario kraft, linerboard and fine papers are largely sold domestically, newsprint, pulp and lumber are sold mainly in the United States, where they must compete with products from all over the world. For example, 17 countries are currently marketing newsprint in the United States. Canada's principal forest products exports--newsprint, pulp and lumber--enter the United States duty-free. Canadian fine papers and specialty papers enjoy tariff protection from US imports.

The forest industry can continue to be the major industrial foundation of Ontario provided we remain competitive not only in the United States but also in world markets. It must be clearly understood that particularly with newsprint and pulp the market is a global one and competitive factors such as currency exchange and an increase in protectionism are more critical than at any other time in our history.

Factors influencing industry competitiveness: Several factors influence the industry's ability to compete, such as plant productivity, cost of energy, transportation cost, quality and cost of wood fibre, expenditures to meet environmental standards, short-term currency exchange rates and protectionism.

Different products have a slightly different mix of competitive factors. For example, wood costs substantially affect kraft, fine paper and linerboard because these grades are made from chemical pulp, which requires a higher proportion of wood fibre per ton of product.

Fine paper manufacturing costs are heavily affected by scale of operation, which is determined by market size. The US fine paper industry is more than 12 times the size of Canada's and consequently enjoys the opportunity of specialization and the benefit to unit cost of longer production runs and larger machines.



In sectors where run size and grade changes are not major factors, such as newsprint and pulp, plant productivity is a function of size and speed of paper machines that have manufacturing technology. Many eastern Canadian paper machines are 50 to 70 years old and cannot compete with new installations in Scandinavia and the US south.

Canadian industry has the technological capability and is investing in some new machines at rates of up to \$120 million per machine. However, all investments must be justified by a return to the shareholders and in recent years most available capital has been directed to modernization of old, inefficient mills.

Manufacture of forest products is energy-intensive, consuming thermal energy for steam and electrical power for motors of up to 20,000 horsepower. The forest industry has set an excellent example in reducing thermal energy costs through conversion of wood waste and spent liquor for fuel. Waste materials generated 64 per cent of Canadian pulp and paper mill energy in 1984. Ontario competes not only with other countries but also with other provinces of Canada. Although Ontario enjoys an advantage in electrical power costs over some parts of the United States, Quebec competitors are favoured by lower-cost hydro rates.

10:20 a.m.

Canada has been blessed with high-quality wood fibre from slow-growing conifer forests. Canadian pulp and paper products enjoyed a competitive advantage for many years as a result of superior fibre. Improvements in pulp- and paper-making technology have resulted in a substantial displacement of northern softwood by lower-cost southern hardwoods, southern pine and tropical fibres. Increasing availability of lower-cost fibres such as eucalyptus is a serious threat to Canadian market pulp producers.

Ontario's wood cost problem is compounded by reduced yield from budworm-damaged timber, slow growth, small-diameter trees, extended hauling distance and high road construction costs typical of the unfavourable northern terrain.

Transportation costs are also of concern for those products, such as newsprint, pulp and lumber, which must travel substantial distances to market. For example, it costs \$70 to ship a tonne of newsprint manufactured at an Ontario mill to a typical US destination, while a mill in Georgia can ship its newsprint to the same destination for only \$25 per tonne.

The Ontario pulp and paper industry has responded positively to environmental concerns. Investments of \$463 million on effluent treatment and process improvements have effectively reduced effluent loadings of suspended solids by 92 per cent and biological oxygen demand by 71 per cent over the past 20 years. It is important, however, to consider carefully the real benefit to the environment before requiring further expenditure of millions of dollars by the industry at the risk of further erosion of competitive position.

The single most important factor in the ability of the

forest products industry to compete in international markets is currency rates. Devaluation of the Swedish krona and other European currencies against the Canadian dollar has reversed any competitive advantages we previously enjoyed. For example, three years ago we had a cost advantage in newsprint over Sweden of \$150 per tonne, while today we face a competitive disadvantage with that country of \$100 per tonne.

In recent years the depressed value of the Canadian dollar against the US dollar has been helpful to Canadian exporters to the United States. However, relatively lower European currencies have forced Canadian exporters out of traditional European markets, resulting in diversion of additional volumes into the increasingly competitive US market. Ontario newsprint now competes in the United States with some 17 countries, while companies still selling in European markets often find that the mill net prices realized are only slightly above their variable costs and do not cover full manufacturing costs.

In addition to directly employing 70,000 people, the forest industry is responsible for the employment of at least as many people in support and service occupations. The annual economic contribution to the provincial economy comprised in 1983: value of shipments, \$7.4 billion; salaries and wages, \$1.7 billion; tax revenue, \$0.5 billion; licensing and stumpage fees, \$50 million.

While Ontario's forest industry produces 14 per cent of the wood produced in Canada, Ontario's value of shipments of forest products accounts for 26 per cent of the national total. The Ontario industry therefore contributes far more to the economy in terms of value added through manufacturing than does the national average.

The forest products industry in Ontario will continue to be a major contributor to this province. Projected world market growth rates for pulp and paper are two per cent per year. Future demand for lumber, on the other hand, is flat, faced with the impact of an ageing population on housing starts. Our ability to supply expanding markets will depend on our cost-competitive position and on future wood supplies.

The Ontario government, in co-operation with member companies of the Ontario Forest Industries Association, has worked towards stable, long-term wood supply through forest management agreements. The agreements provide for prompt renewal of the forest following harvest, but renewal alone is insufficient to ensure future wood supply. The land base must be protected from further incursions, old trees must be protected from fire and insect losses and the new forest must be tended and protected through its 80-year life. Foresters will need the most effective tools available to protect and tend the forest.

The Ontario forest industry urges the government of Ontario to ensure access to major markets for newsprint, pulp and lumber by fully recognizing the benefits of free trade. At the same time, continued protection for linerboard, fine, specialty and sanitary tissue papers is required for many years to allow for adjustments necessary to maintain viable operations in these labour-intensive

and high-value-added sectors of the paper industry which are major employers in Ontario.

Mr. Morin-Strom: Do I take it from your final paragraph that you have a mixed opinion here, that on these major products currently being traded internationally by Canadian industry--newsprint, pulp and lumber--we should continue with the free trade environment we currently have without any duties or tariffs on those products, while we should continue with protection for some of the more finished product lines such as you have listed here?

Mr. Bird: Yes. I think we are saying status quo, basically. Any contemplated changes, of course, should be subject to negotiations and discussion.

Mr. Morin-Strom: Is your main concern the issue we have heard from many other presenters, that the issue is deterioration of the status quo due to protectionist measures in the United States? Do you see that as being the main threat right now?

Mr. Bird: That is the main current threat as we see it.

Mr. Morin-Strom: How do you think the Canadian government should approach negotiating protections of the status quo?

Mr. Bird: I would say with a full awareness and a good understanding of the cost-benefit situation as it exists, the cost-benefit to the economy, provincial and federal, of all the various sectors of trade that are expressing concern. I presume the ultimate outcome will be a package that will comprise a number of export products, forest products among them.

What we have attempted to do in our presentation is to place Canadian forest products and the Ontario contribution in a context that would allow that kind of evaluation. It is pretty big money.

Mr. Morin-Strom: Yes. I guess what I am getting at in terms of a strategy is that we have heard a few different alternatives. One is negotiating a broadly based trade path that would liberalize trade on a broad scale with presumably a limited number of exceptional industries, the move to a freer trade agreement. Another approach that has been suggested is a further emphasis on multilateral trade negotiations through the General Agreement on Tariffs and Trade format. I suppose another approach that has been discussed a lot is the sectoral approach, where we look at industry-by-industry situations and negotiate problems in particular industries as they come up or may be proposed by those industries.

Which of those strategies do you think makes the most sense?

Mr. Bird: The latter option, the sectoral one.

10:30 a.m.

Mr. McGuigan: I should explain that I just came from my



trip to Washington, where I was talking to trade people. One of the things they say on the American side is, "Yes, we want new negotiations, preferably on the multilateral; but first of all we want to negotiate the lumber deal." They do want to include lumber in the multilateral, which naturally is not very attractive to us, because I think what they are saying is, "We want you to give up all your bargaining chips, and from that point on we will bargain with you."

What would we have to give up in the way of these fine papers? What is the level of tariff that applies to them? I am not suggesting we are going to give up anything, but I want to know what playing cards we are holding.

Mr. Boswell: I hope you are not going to give up anything. Under the GATT, by January 1, 1987 the US tariff on writing papers will be reduced to 2.4 per cent. Book and printings are now entering free. Canadian producers protection on fine papers will be down to 6.5 per cent by that date. In sanitary papers, the US rates will be down between four and five per cent. Canada's protection, which we suggest is vital, will be at nine to 10 per cent, depending on the actual product at that time. So you can see we have a substantial protection in that area at the moment, even though it has dwindled over the years.

Mr. McGuigan: Is this production spread among a number of companies? What are our chances of restructuring and doing this in one large part so we can compete with them?

Mr. Boswell: I think the possibility of doing that is minimal. As explained in our brief, the cost of a new paper machine today is horrendous and we are talking about an area in which there are literally thousands of grades of paper. No one beast of a machine could be all things to the marketplace by any stretch of the imagination.

Mr. McGuigan: Is there really not much hope of restructuring our industry to meet the competition?

Mr. Boswell: There is not instant hope, depending on the success of any trade negotiations that were to take place. Obviously Canadians would be as interested in developing their share of the US market as any other country around the world and since we are talking in many cases about commodities, they are world commodities, as we have found as a result of nationalistic exchange rate policies in other countries.

Mr. McGuigan: Mainly I wanted to know the level of protection.

Mr. Chairman: I want to make sure I understand. Did you say the suggestion was made to you in the United States that we have to conclude negotiations on a lumber agreement before we--

Mr. McGuigan: That is the stance they are taking. How much of this is a bargaining situation, we really do not know. At the end you get down to the brinkmanship, but that is an approach they are taking. They are saying they want to negotiate with us

but first they want to get two or three of these contentious issues out of the way which, of course, would be completely unacceptable from our point of view. If you give away your trump card, you have not got much of a game after that, but that is the approach they are taking.

Mr. Taylor: This is interesting, but I am wondering about the context. We are not here to question one of our own members but, since he raised it, I was wondering in what context this has come out because, as I understand Mr. McGuigan, a condition precedent to negotiations on a bilateral basis in general is a resolution of certain of these sensitive areas, lumber or forest products being one of them or the primary one.

Mr. McGuigan: Forest products being probably the primary one.

Mr. Taylor: My question of Mr. McGuigan or anyone else is, in what context would this have been raised? Was there a trade meeting in Washington? Was this part of a federal approach? Was it intelligence gained from the cocktail circuit? How did we achieve this piece of information?

Mr. Cordiano: We used Canadian dollars. We paid them with our own--

Mr. Chairman: We should not question our own committee member, but I am curious as well. It may be that the proper procedure would probably be to have some time set aside when we can have a report from Mr. McGuigan. I am sure there will be time.

Mr. McGuigan: I am busy writing one now.

Mr. Chairman: If you can bring forth in any other question some information, it may be for supplementary questions to Mr. McGuigan in the circumstances. I do not want to get into whether or not he found out at a cocktail party or--

Mr. Taylor: No, I understand. It was intriguing from my point of view, especially in view of the delegation that is before us today. It gives even more significance to the presentation that this delegation is making. The resolution of the problems in that industry is a condition precedent to the overall trade talks.

Mr. Chairman: It certainly is.

Mr. Mackenzie: I have a couple of questions, and I do not want to get sidetracked by Mr. McGuigan's or Mr. Taylor's comments. It adds some credibility to the position that was taken here, and to some of the questions we asked of the representative of the Canadian Paperworkers' Union who was in with Cliff Pilkey.

As some of you may or may not recall, he indicated the British Columbia situation was going to be one of the major factors in whether or not we entered into any agreements. His feelings were that we were going to end up the losers to some extent on that issue, no matter what happened. I was wondering if the witnesses before us today see that element of protectionism in

the United States as being a real difficulty or a real hardball.

Mr. Boswell: It is hardball. We have been through it before on a regular basis, as you well know, and we won that. This is a different game, and I guess even harder hardball, because it is political. But all of the score is not in yet. I think we are tending to see the bleak side of the political manoeuvres that are being taken in the United States at the moment.

There is a tremendous lobby in Canada's favour on this question, inasmuch as the American consumer is now being shown what it will do to the cost of housing should such protectionist measures be taken. The industry, in combination with all governments affected in this country, has mounted a very significant campaign. I might add it is another very costly campaign. The next few weeks will tell how successful we may or may not be, but I do not think it is all bleak.

Mr. Mackenzie: I did not gather he had given up, but he certainly felt we were going to lose something on it. I gather you are a little more hopeful.

10:40 a.m.

Mr. Boswell: I do not think we can lose anything on it, quite honestly. I do not know how it would be done, and I do not think there is any basis in fact for some of the claims that are being made. The fact is that in this country, particularly in this province and in Quebec, we have become very cost-competitive in our production facilities. While they like to talk about the cost of wood, the fact of the matter is that our sawmilling industry in this country is very competitive and we are handling it.

Mr. Mackenzie: Your brief, although I enjoyed the points you made, like a few others, leaves one wondering right up until the very end. When you say "urges the government of Ontario to ensure access to major markets for newsprint, pulp and lumber by fully recognizing the benefits of free trade," and then I think, at the same time, when you answered my colleague Mr. Morin-Strom you come out sounding as though you were a free trader, if that is the expression, in that sentence. However, that is similar to the Canadian Manufacturers' Association, who essentially presented a free trade brief with reservations. However, when asked where their membership stood, they came up with a figure of about 60-40 for or against free trade.

I want to be sure of what you are telling us. You are telling us that you want your current access protected, you want to be able to deal with some of the protectionism that is going on in the United States, but you are not essentially making a strong case pro or con with respect to total free trade, if you can even call trade that. I want to know exactly where you are coming from in your brief.

Mr. Bird: It is as it says, sir, the products that enjoy free trade now---

Mr. Mackenzie: Which is the major part of it.



Mr. Bird: Newsprint, pulp and lumber. Our domestic industry has grown in an atmosphere of free trade in those products. In some of the other products, the more specialized papers and fine papers, our industry has developed small market niches, mainly domestic.

In that process, it has enjoyed tariff protection from American competitors and tremendous big plants over there with low unit production costs that could just swamp us in no time at all. The specialized industry has grown, again, in that environment, and any drastic change in that environment will collapse it completely.

There may be opportunities. The GATT negotiations have reduced the protection the Canadian fine paper industry enjoys.

Mr. Mackenzie: Does not this put you in a position where you already have free trade in your major market, so obviously the concern there is protectionism or what they might do to cut into that market, but where you have free trade in the major parts of your industry, at least in terms of tariffs, it may be the nontariff barriers that become the problem? However, you are essentially arguing against free trade in respect of the other products, which really does not make it a free trade argument.

Mr. Macdonald: You have to recognize the size of the forest industry in Ontario and in Canada. As Joe says, different components of the industry have grown up in different manners. Like so many others who have appeared before you, we find ourselves in a position where it is very difficult to have one very specific recommendation that blankets the whole industry.

Mr. Mackenzie: I am wondering what you gain if you push the free trade part of your argument, which you already have in the major part of your industry, when you recognize the rest of it would be in some trouble with free trade, and there you want the protectionism, as you have clearly stated.

Mr. Macdonald: Our hope and our intent is to try to clarify for the committee the position of our industry, what our competitive factors are, and the recognition that part of it is now enjoying free trade and happy with that, and part of it requires protection in order to continue being relevant.

Mr. Mackenzie: Do you have the trade balance situation in fine papers, sanitary papers, boxboard, etc.? Is that in this brief?

Mr. Bird: It is not refined to that degree. It separates out newsprint from market pulps.

Mr. Mackenzie: Would we be able to get the current trade balance in those products or is that possible?

Mr. Bird: Yes, it is possible. It is available.

Mr. Mackenzie: I am wondering if the committee could get the kind of a trade balance in these products that we have some difficulty with.

Mr. Chairman: Would the association be able to provide that to us or would it be more appropriate that we seek another way of getting it?

Mr. Bird: We would undertake to provide that for you. I am sure it is available from the Canadian Pulp and Paper Association, which is the source of this.

Mr. Mackenzie: There is one other thing. I do not want to load you down with anything you cannot provide us with, but you indicated that some of these areas would be under serious stress in a free trade situation because of the size of those operations, etc. Could we have your reaction as to which ones would be in most serious trouble, what might happen to them and what is the effect in dollars and jobs?

In other words, once again we are in a situation where we know areas in which we are in trouble. We are having difficulty in this committee in finding where all the gains are. We finally got one industry, the cement industry, last week, but we have not had a hell of a lot given to us in terms of where we are going to make some real gains. We have been told some of the areas where we are in trouble.

Mr. Boswell: You have to keep in mind here that if you are questioning whether this is a free trade brief, it definitely is in the Canadian context, and it is somewhat more pronounced in Ontario perhaps. The writing, kraft and specialty papers are only six per cent of our industry. That, however, represents a lot of value-added jobs. We can at least give you what that means on a Canadian and perhaps on an Ontario basis.

Let there be no doubt about this brief. We are suggesting there be some period of years involved before we get into free trade on consumer or sanitary papers and fine papers; indeed, on fine papers we know it is there. There is a 2.4 per cent United States tariff on writing papers. That is not significant. We are doing quite well, thank you, as long as the dollar is where it is, but should there be any change in that dollar--and that is not something around which you negotiate a trade agreement--then the longer runs in the United States would naturally harm what we have here.

Mr. Mackenzie: I understand your stress on the importance of the difference in the Canadian dollar and I understand your argument that you got where you are on the basis of pretty free access to the major products, but there are no tariffs there now; so unless you are suddenly faced with nontariff barriers, I am wondering what the additional gain is. It does seem to be more of a defence against protectionism measures, because where do you go with more free trade? In the one small sector you do not want it because of the problems it creates. In the major sector it is supposedly free already because there are no tariffs there.

Mr. Cordiano: I want a supplementary, Mr. Chairman.

Mr. Chairman: To the second part of Mr. Mackenzie's question or the first part?

Mr. Cordiano: Regarding this whole question of fine papers and sanitary papers, that end of your market, the tariff measures have been reduced over the last number of years since the last GATT round. Do you foresee any viability in that end of the industry? As far as competing with larger firms in the United States and the long runs, would the industry be able to compete with some of those companies in the United States if they had access to a larger market?

10:50 a.m.

Mr. Boswell: That is a very broad question. I think the answer is that it might be very difficult in the longer-run commodity fine paper items, although we do have some facilities in this province to do that. Because it is geared only to the domestic market, the equipment is geared to shorter runs. I think the answer to your question is yes, we would hurt.

Mr. Cordiano: In the short term?

Mr. Boswell: Yes.

Mr. Cordiano: If a free trade deal were to become a reality, your industry would probably have to adjust over a period of 10 or 15 years. But could it adjust, even given the 10-year period during which it is supposed to gear itself up for longer production runs, so as to compete on unit costs with larger American firms? That is very difficult to answer, I am sure; there are a number of variables you would have to consider. I am just trying to get a feel for what we would give up in a free trade deal as far as that industry is concerned, if we are going to give anything up at all.

Mr. Mackenzie: I am sure it can adjust if the other guys stood still. The question is whether they are going to stand still or not.

Mr. Cordiano: All I am suggesting is that if you had to adjust, would it be total devastation for that part of the industry or would there be something to salvage there?

Mr. Boswell: As our brief has suggested, there are many external forces that come into play relating to our competitive position, and many of those are government imposed. I think we can probably adjust if we are not burdened with a tremendous number of external costs. We have adjusted in the past--and we have adjusted well--to meet world market conditions, and that is what this is.

You must recognize that it is not just the impact of free trade or enhanced trade between our two countries, but the impact of trade between other countries that are in the forest products business. As we have learned bitterly in the past, and are



experiencing today, the nationalistic foreign exchange policies of European countries are our biggest single problem. It is a great mix of things. It is not easy to answer your question, but if anybody can adjust, given a reasonable environment, the Canadian pulp and paper industry can.

Mr. Chairman: I would just like to plough into Mr. Mackenzie's initial questioning a little more, perhaps because we as politicians may face the same sort of criticism eventually.

I think, Mr. Boswell, you said something to the effect that we are playing hardball with the United States, especially with regard to the attack on the lumber industry in Congress. We are also aware of the boxboard industry's concerns that were expressed to this committee. You have tended to indicate in your submission a desire to play both sides of the game. Is this really a realistic submission, to suggest we can have free trade and still protect all of the subsectors of your industry that need protection?

Mr. Bird: I guess what we were trying to demonstrate, in addition to the high value of the forest industry to the Canadian economy, is the diversity of the industry's product mix. We have talked in very general terms about fine papers and specialty grades, but it is a very diverse situation. I do not think it would be realistic for Canadians in trade negotiations to deal with forest products as a single commodity. In reality, there is a host of products, all of which need to be treated individually or in some logical grouping. We do not find it illogical to talk of free trade for certain elements in the mix and to talk of protection for certain other elements in the mix.

Mr. Chairman: Are you saying then, in view of what Mr. McGuigan has told us, that maybe we should be consummating some sort of deal for the forest industry in total that includes protection of our boxboard products and so on and just take a look at that sector and conclude it so that certain aspects of your industry are protected? Then we open the gates and talk about everything else after that is finished?

Mr. Bird: Having come out in favour of the status quo for the mix of products, it is very difficult for us to suggest to you in a public forum what a reasonable backup position might be.

Mr. McFadden: I read your brief with interest. I should compliment you on the number of figures and the amount of thought that went into it. Some of the briefs have been a little more up in the air, but I think yours is quite concrete.

One thing that rings through this brief is the number of factors that impinge on you, which have already been discussed. One thing that emerges as a very large factor is currency. You also mention the whole area of automation, the quality of equipment and so on in plants, how updated the particular plants are and the innovations in Europe and so on.

I am trying to get an exact feel here for the real impact of duties. Free trade discussions, of course, normally revolve around tariffs. We have already heard that they are quite small. Certainly in relation to what we are facing in the United States, they seem to be quite small as far as the products you have mentioned coming into Canada from the United States are concerned.

How important are duties to you, really? If we left everything the way it was, I get the impression from you that a re-evaluation of the American dollar up 10 per cent would have a far more major impact on you than a two per cent drop in tariffs; or that if the Canadian dollar suddenly dropped in relation to European currencies, it would have far more impact than some duty adjustment between us and Europe.

I am just trying to get at what the important economic factors are for you. I have a feeling that the whole free trade business is important but other factors are likely to be of more bottom-line importance to you unless we suddenly dropped everything all of a sudden, which is not being proposed.

Mr. Macdonald: Certainly on an order of magnitude basis there is a great deal of validity in what you are saying. When we can get a situation where the Swedish krona--and Scandinavia is a major competitor in the more commodity-oriented end, newsprint, pulp and so on--can drop 40 per cent in relation to the Canadian dollar within the space of a year, that obviously far outweighs the level of duties we are talking about.

11 a.m.

Mr. McFadden: You talk about the efficiency of industries and productivity. Has our success in the United States been a function strictly of currency? Has that been the biggest single reason or have increases in efficiency and productivity also had an effect? What is the relative importance of these different factors? Have you managed to isolate any of that or is that something you have not really managed to research or have figures on?

Mr. Macdonald: If I could use newsprint as an example, much of the US industry developed subsequent to the mills in Canada and most of it post Second World War. Because of the size of the mills, they are more productive. The wood costs are typically lower in the United States than in Canada. That is counterbalanced somewhat by higher energy costs in the United States, but if the Canadian and US dollars were at par, most Canadian mills would have difficulty competing with the United States. Does that answer your question? Without that advantage due to the different value of our dollars, the Canadian newsprint and pulp mills would have difficulty.

Mr. McFadden: So one of the most effective nontariff barriers the Americans could put up would be to reduce the value of their dollar against ours and that would solve some of their problems.

Mr. Macdonald: I think the Americans do not really appreciate the extent to which the problems they are concerned with are a result of the strong American dollar. They tend to find other factors that they blame for them.

Mr. McFadden: I had a question about sectoral free trade, if we could just take a look at that for a minute. I am wondering from a negotiating posture, because you said you did not want to give away things, about our ability to negotiate. I have the feeling our position here from your industry is for us to tell the Americans to guarantee us the same access we now have but that basically we have nothing to bring to the table from our point of view. I can see why you do not want to suggest this, but you do not see an area in this industry--if we were just to talk about this sector rather than other sectors and if we just took this sector as part of the discussion--where you would prefer a situation where we left our existing protections but we guaranteed in some way your position in the American market.

If we talked to the Americans next week, as we are going to, if we sit there and say, "We want the same access we have now; we have nothing to offer you, but on the other hand, we want to enter into sectoral free trade discussions," I just wonder where we are going with this. I wonder if we should even talk about it because it almost seems too duplicitous as a negotiating posture.

You can always pass this on to us later, I suppose, away from the public forum, but what is it that could be suggested by the Ontario government to the federal government or whatever that would help you, outside of just saying we want the cake we now have, but we do not have anything we can really discuss or negotiate? That is my concern.

Is there anything you have to tell us that would make it attractive to the Americans to guarantee you what you have now got? Surely that is our objective, to see you do not lose what you now have.

Mr. Taylor: Getting the backup position.

Mr. McFadden: Getting the backup position. It is just that having worked on negotiations, I am trying to see what we are bringing to the table in all this. We want to protect you.

Mr. Bird: I think it was mentioned earlier in discussing the evolution of some segments of our industry that fine papers have gone through a negotiated reduction in protective tariffs as a consequence of the GATT process. I guess if there is any bargaining chip, it is that we have demonstrated some success in adapting in most circumstances. If there is any concession to be made, if it can be made over time to provide an opportunity to adapt, there might be some way out.

What I do not know is the importance to the American fine paper industry of access to Canadian markets. Perhaps you will find out in Washington.



Mr. McFadden: You are suggesting they may care less about the Canadian market and just want to cut us potentially out of their market. We could talk about what we might give them but they would not be that interested; that is what your worry is.

Mr. Bird: That is the risk.

Mr. Cordiano: We are looking at this sectorally. As far as negotiations go, then something else might be traded off.

Mr. McFadden: That is the worry. We may trade off your protection at the expense of some other industry. The question is, do they want to be put up to ransom? I was trying to see if in any other section something could be talked about, because you are trying to hit somebody else over the head down the line.

I have one final point with respect to your involvement. Has your association been involved directly in any negotiations in Washington, or has this been done through your national organization?

Mr. Bird: This has been done through the national organization of which we are a member with other provincial and regional associations.

Mr. McFadden: Based upon those discussions and what you can gather, how do things look, at least to your association or your lobbyists, as people who are working on it?

Mr. Bird: The information we have from people who have been fully occupied in the process offers some encouragement. The technical part of the process, establishing with the United States International Trade Commission that Canadian lumber is not subsidized by those stumpage rates, has been a critical issue. That has been proven in the administrative process. What is left is the political process.

There are a number of bills before Congress, the most important one proposed by US Representative Gibbons. He spent some time in British Columbia recently, and the people who were there seemed quite encouraged.

However, the predictability of the political prowess is something that none of us would embark on.

Mr. McFadden: So you are moderately encouraged?

Mr. Bird: Yes.

Mr. Ferraro: I hope my question is not a regurgitation of a question previously asked of the witnesses. It basically deals with the completion of hanging on to the status quo. We have heard the agricultural sector promote the same thing. We have also heard professors who have a gut feeling when they expound on a certain course of action or recommendation to this committee.

My question to you gentlemen, especially in the light of the fact that Mr. Boswell indicated we are competitive and probably

could adjust very well, albeit when one considers transportation costs, the currency, energy costs and so on, is this: Are you, as a representative association, recommending to this committee the status quo in essence on the basis that you are comfortable with it or on the basis of some detailed studies vis-à-vis the effects of unequivocal trade or the effects of protectionism, assuming we take a rigid position?

11:10 a.m.

Mr. Bird: We are recommending the status quo on the basis of our demonstrated ability to compete in the products where we have free trade and to take our lumps in the marketplace, as we are doing at present and suffering the effects of devaluation of European currencies. The industry is taking those marketplace lumps, but it does not want any imposed lumps. It will take its chances in the marketplace on those products.

On the other products that enjoy modest tariff protection, the ones about which we say to leave them alone, again, at the risk of repeating myself, I refer back to the evolution of those industries. They have grown up and have developed particular market niches, and those little niches have been protected by tariff. It may be possible to change that over time, but an instant change would be disastrous.

Mr. Ferraro: But if you talk about these lumps, and no doubt lumps are going to come up that we have never seen yet--I think it is a harder game of baseball than we have ever had before--has the association ever studied to any degree what would happen if everybody just put his fences down and said, "Okay, let us go to it," or if the United States said: "To hell with you, Canada. We just will not allow you to sell in here"?

Have you studied the extremes? The middle of the road is great, and you can pretty well handle that, but have you studied the extremes to any significant degree?

Mr. Boswell: Every company within the association has studied the extremes, but as was just pointed out by this gentleman over here, all that is meaningless in view of the chaos in world exchange rates.

Tariffs, we are the first to say, are nothing in comparison to the chaos and the nationalistic approach to exchange rates around the world. When the krona can be devalued 40 per cent overnight or within a year, as Mr. Macdonald said, sure, we can study it and say, "If it had been only 35 per cent or 27 per cent, it would have been this, that or the other thing." But we want to assure you that we do not think the present situation will last for ever. It is a long road without a turn, and you cannot keep devaluing your currency for ever without having some kind of internal explosion.

In view of those things, the tariffs do not measure up in importance. Sure, we have measured it, but under what scenario would you like to see it measured? We have measured it; every individual company in the association has measured it.

If my colleagues will indulge me for a second, I hear your committee grasping for some fallback position, which I do not think is our mandate to give you. But I suggest in the importance of this thing that we are presenting a free trade brief and that you, who are going to come up with a final report, can interpret those three words in the last paragraph for many years as you see fit.

We have been through this before in sanitary papers and fine papers. There has been a decrease in tariffs, which we have lived with for many years. We are just saying: "Do not do it abruptly, for goodness' sake. Let us not abolish everything on day one." Therein lies your negotiating scope.

Mr. McGuigan: First of all, I would like to say that I do not think we are grasping for a fallback position. As was noted earlier, we are trying to grasp a brief that has some contradictions in it.

It seems to me what I am hearing, and I would like to try this on for size, is that you would prefer a General Agreement on Tariffs and Trade type of negotiation, which generally has tended to recognize the smaller elements in any country's situation. We have free trade in the big items, the pulp, and it has recognized some protection in the smaller parts of your industry. That has been very good for you and it has been able to be negotiated under the GATT situation, which is a multilateral situation. We have so many players in that multilateral deal that there are chances to preserve bits and pieces of trade here and there, not only in your industry but also maybe offsetting one of yours against someone else's.

If I can use agriculture as an example, it is also saying, "We want free trade but not in these areas." If we look at agricultural trade between Canada and the United States, we have virtually free trade in all the major elements. However, some of the smaller industries, including the one I come from, horticulture, where we have protection running at nine or 10 per cent, would be devastated if we went to bilateral free trade. So would the fine paper industry. When you are talking about bilateral free trade between the United States and Canada, the position you outline here would be almost impossible to retain. I cannot see how you could retain that since free trade is free trade.

Am I hearing that you would be far more in favour of a GATT negotiation than you would of a bilateral negotiation between the United States and Canada? In my industry, I would be far better off under GATT than under the other.

Mr. Bird: I guess we have expressed our preference. If any change at all is contemplated, let it be a negotiated change to take effect over time and allow opportunity for adjustment.

Mr. McGuigan: That is more characterized by GATT than it is by the other.

When you go to Washington next week you may very well ask



yourself, how sincere was the United States at the Shamrock summit last March? How sincere are they when they talk about a Canada-US deal? It looks as if they are trying to bring pressure upon other countries, such as France and Brazil, which are now resisting the renegotiation of GATT. You come away feeling that the United States is saying, "You country folk negotiate a multilateral deal or we are going to go to Canada and show you." You come away from Washington, as I did, confused and not knowing whether they are sincere as far as Canada is concerned.

Mr. Mackenzie: I have two points. First, I take it you have more hope of doing something about the Gibbons bill, which has been identified as one of the more major problems than others that have been before us. The biggest single argument we have been given--you mentioned that the political decision is another matter--is that it is before the US Congress in the context of a coming election that sees at least four very protection-minded and conservative US midwestern senators up for re-election. That seemed to be the context that at least one or two of the witnesses before us expressed with respect to the difficulty with that bill.

You had Gibbons in British Columbia, I take it and were able to outline some of the problems to him from your perspective?

Mr. Bird: Yes, he has been to British Columbia with his ways and means subcommittee and spent some considerable time absorbing information.

11:20 a.m.

Mr. Mackenzie: I am not quite sure how it is going to register just yet, matched with the politics of the United States in the coming elections.

The other thing that caught my eye, and I underlined it as we were going through your brief, was one of the reasons for being in some trouble. You had three sentences on page 3: "Many eastern Canadian paper machines are 50 to 70 years old and cannot compete with new installations in Scandinavia and the US south." Can I ask exactly how we got in such a position? I come from a steel town. If there is a pride in our town, it is that even with the problems we have now, at least we have updated. Stelco is currently going through the new basic steelmaking process of a \$400-million change. We have been upgrading almost constantly. As a result, we have one of the most efficient steel industries in the world. Why did we not reinvest in new machinery in the paper industry before this?

Mr. Macdonald: It is more a matter of financial capability than of anything else. Historically, much of the newsprint industry started in Canada in the 1920s. There was not a capability to make good newsprint from southern US fibre until after the war, so it was not built until that time.

The Canadian industry has not had circumstances that provided sufficient financial capability to continue to modernize throughout the period. The sums are so huge that it is very difficult to approach this issue until you can see a pretty secure

future ahead of you to earn back the money.

On the other hand, the Scandinavian industry has a situation that operates on a somewhat different basis. Most of the companies there are much more highly leveraged, with the ability to borrow very large sums from the state bank and rehabilitate their equipment and the forest industry is such an integral part of their whole economy that they support it and, even in the case of devaluations, take them in order to make sure the industry continues to be viable.

Mr. Mackenzie: Yet you make the point in the subsequent paragraph that you are now doing just that.

Mr. Macdonald: We are doing it as an industry to the extent that we are capable.

Mr. Mackenzie: Would some of that be necessity and not just the capability as previously, because it seems to me you have let some of those machines go an awfully long time? I recall working on a couple of little ones at the E. B. Eddy Co. in the days when they had a paper machine in Hull.

Mr. Taylor: Has the federal-provincial program assisted the industry? It seems to me there were substantial sums of money involved to assist the forest industry in Ontario and also the stimulus, from an environmental point of view, in upgrading to protect the environment rather than add-ons to streamline the operations and equipment. Is that not a factor?

Mr. Macdonald: The federal-provincial aid programs came along at a good time and provided a stimulus to the industry to modernize to some extent, but the total amount of the aid amounted to something like 12 per cent of the total capital cost involved for most of the companies. It was not enough money to make the thing happen.

In addition, by the terms of the aid that was provided at that time, it was slanted towards environmental expenditures. There was a desire to use some of that money to improve the environmental impact of the mills, and some of that did help to modernize. But most of the environmental expenditure is an add-on that really does not help you to modernize the productive facility part of the mill.

Mr. Taylor: I have interrupted Mr. Mackenzie but it seemed pertinent to his line of questioning.

There was a question in terms of stimulus to modernize and why it had not been done before, and I was trying to mentally measure the impact of environmental orders, on the one hand, so that there was certain mandating by government within the industry and, on the other hand, some more positive stimulus by way of financial assistance to the industry to assist it in modernizing and in improving the environmental impact of the industry.

Mr. Morin-Strom: I would like to go back to an issue that has been brought up by many of our witnesses, particularly

the economists, who have talked about comparative advantage for us versus the United States in certain industries, which would give us the opportunity for the areas where we are going to make the gains from a move to a complete free trade agreement and absolute assurances against US protectionism presumably.

Since the forest products industry is one where we have a major favourable balance of trade with the United States, it would seem the overall forest products industry should be one of the industries where we would perhaps have an opportunity for major expansions, major growth of exports to the United States, major new job opportunities, using the argument the economists have presented to us in the past.

Can any of the three of you identify specifically what types of major expansions we might see from a bilateral free trade agreement with the United States that would not occur under the status quo or if we did not enter into such an agreement? Are there major opportunities for major expansion and employment growth in Canada from a wide-open trade agreement with the United States in the forest products industry?

Mr. Bird: I think possibly the opportunities for future expansion of the pulp and paper industry in Canada are limited to some extent by the raw material supply. We are probably approaching the maximum of our annual allowable cut. Although there are improved silvicultural methods coming into play, any significant expansion will probably be based on our ability to grow more timber faster than we are doing now.

Mr. Morin-Strom: You do not see your industry as one of those areas that would create considerable additional jobs in Canada, even in the area of further value added product, moving out of the commodity goods into fine specialty papers, sanitary papers, boxboard, as an opportunity to get into more job-intensive areas with major new facilities? Do you think that could happen in Canada?

Mr. Bird: In the specialized products, the markets we are able to function in are rather limited. They are small and they are mainly domestic, because we do not compete well.

Mr. Morin-Strom: You do not think we could or likely would go into those products with major facilities to attack the US market? Presumably, the argument here is not our domestic market, it is the opportunity to take major segments of the US market in those areas.

Mr. Boswell: If your interpretation of bilateral is that Canada would be given some distinct advantages in the United States because of supplementary tariff barriers the United States would throw up to other countries from which they import forest products, then obviously we would have an advantage, but I do not think you mean that.

Mr. Morin-Strom: I think it means removing barriers between the two countries so that we can compete on a wide-open basis with the American portion of the industry. I am not sure it



means anything in terms of what happens versus the rest of the world.

Mr. Boswell: I do not think there will be any significant opportunity to increase for the value added kind of thing you are talking about.

11:30 a.m.

Mr. Morin-Strom: You do not see those as areas in which we are likely to be competitive. Okay.

Another argument that has been brought forward by the economists is that there is a negative influence on Canadian investment from the prospect of protectionism in the United States and that in some industries there is a disincentive to invest, modernize, maintain an international competitiveness if we do not have an ironclad written agreement that provides us the assurance of wide-open access to the US market.

Has that kind of disincentive been apparent to this point? Do you see that as a growing problem in your industry? One of the arguments is that if we do not have that agreement for wide-open access, the Canadian industry will put its future investment on the US side instead of our side, in order to ensure that the new facilities will have access to the US market. Is that a concern?

Mr. Boswell: A concern or an opportunity? It is inevitable that this kind of thinking exists in certain product areas within the pulp and paper industry. It is because of the extended marketplace and because of the operating costs which, in certain areas of the United States, are a distinct advantage.

Mr. Morin-Strom: Has there been a move by Canadian operators to invest in the United States? I think Abitibi is one that has moved down to Georgia.

Mr. Macdonald: We have invested in a mill in Georgia. There are other instances. The example in our case is newsprint, which is a product that is freely traded, so obviously our investment was not motivated by a fear of being closed out of the US market. It was a matter of supplying the US market from a more cost-competitive situation.

Mr. Morin-Strom: It was not because of fears of access to the US market being eliminated, or of tariffs being put up around the US, or of protection?

Mr. Macdonald: No.

Mr. Chairman: Any other questions? Thank you very much gentlemen. It is obvious that your industry is going to be in the forefront of any discussions that occur. This, perhaps, is not because of our own choosing but because of events in the United States, if and when the concept of a freer trade is broached by our country to the United States. It is obviously very important that we consider your concerns. We are doing so and will continue to do so. Thank you for being here.

Mr. Bird: Thank you, Mr. Chairman.

Mr. Chairman: I wonder if I could just go off Hansard.

The committee considered other business at 11:33 a.m.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS  
ONTARIO TRADE REVIEW  
WEDNESDAY, SEPTEMBER 4, 1985  
Afternoon sitting



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Substitution:

Hennessy, M. (Fort William PC) for Mr. Bennett

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

Witness:

Sinclair, Dr. G., Chairman of the Board, Sinclair Radio  
Laboratories Ltd.

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, September 4, 1985

The committee resumed at 2:10 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: I want to state on the record that at my instigation this morning we went off the record and I retracted some of my earlier thoughts on having to make some definitive statement on behalf of our respective caucuses by tomorrow.

I think it was the consensus of everyone, as a result of a discussion we had this morning, that tomorrow afternoon would be better spent listening to Mr. McGuigan give us a bit of a report on his travels and thereby brief us somewhat on what we should expect when we go to the United States next week. We might have some other briefing in that respect; I am not able to say that yet.

This probably would best be done without Hansard, although it is not necessarily in camera. Thereafter, for the use of Mr. Traficante, if anyone wishes in an ad hoc way to make any sort of comment on how our interim report should go, that will be quite welcome, but we are not asking for it. I think we will just leave it at that.

We also received this morning some welcome suggestions about the tone of some of the other witnesses we might want to hear from. It is appropriate in those circumstances that we have George Sinclair here this afternoon with a very fascinating title, Why Free Trade and Protectionism Don't Work. Since Dr. Sinclair is the chairman of the board of Sinclair Radio Laboratories Ltd. and as such will have something to say to us about high-tech industry, the comment was made this morning that we probably have not looked thoroughly enough at that area and at what free trade really means in relation to it. I hope we can get into that this afternoon.

Dr. Sinclair has prepared a very lengthy and what looks to be a very thorough brief. He also has some projections that he wishes to show us. Generally speaking, he would like to move ahead with his presentation with a minimum of interruptions. Then he will be free to answer questions afterwards.

DR. GEORGE SINCLAIR

Dr. Sinclair: Mr. Chairman, I very much appreciate the opportunity to talk to you this afternoon. As you can probably guess from the title, what I have to say is rather controversial, but I hope it will prove to be useful.

I have been following the proceedings of your committee as best I could from the news reports. I get the impression that you have had a group of quite reputable experts tell you that free



trade with the United States is our only hope, and you have heard from another equally reputable group who are saying that free trade is a disaster.

To the best of my knowledge, at the present time we do not have economic theories that will resolve the dilemma, and this is basically the problem I want to talk about. What I am going to do is to explain to you why free trade does not work. I am going to do that by looking at the fundamental assumptions that the economists make in free trade and ask the question, are we fulfilling these assumptions? I find that we have five or six assumptions that are not being fulfilled. I will say a little less about protectionism, but it is a similar situation.

You face a problem of deciding on my expertise to talk about this subject. I am an electrical engineer. I am actually professor emeritus of electrical engineering at the University of Toronto, but I have a large number of years of experience in creating industrial innovations because, when I became a professor, I chose as my field of research industrial innovations in the field of electrical engineering.

Unlike most people who deal with this subject, I did not sit in an air-conditioned library and think about it. I went out into the real world and started innovating. I have a fair string of innovations to my credit and I am not talking about ingenious gadgets. My innovations are basically in the creation of industries. Until recently these were fairly small but important industries, but in recent years I had an opportunity to get involved in creating a major industry.

Specifically, one of the stated assumptions of free trade is that each nation will develop its own industries of comparative advantage. In 1974, I set out to create an industry of comparative advantage for Canada and, as I will explain to you, I have succeeded beyond my greatest expectations, but I had to accomplish it in spite of our industrial policies, such as they are, both federal and provincial. So this is the course of my talk.

What I am going to try to do for you is explain why free trade is not a suitable choice for our national economic goal. Prime Minister Trudeau regularly reminded us that commitment to free trade was the essence of our economic goal. He used to do that at the economic summit conferences held biannually, as you will remember. I am also going to explain to you why protectionism is not the solution to our problems either and not suitable as a national goal. So where does that leave us?

The correct choice of goal is economic growth. If we have adequate economic growth, as Japan has, our job creation problem will disappear and we will have plenty of jobs. The deficit reduction problem in Ottawa will disappear because we will have adequate tax resources. So economic growth has to be our goal. But we do not really have any policies that address that particular problem and it is because our current economic theories do not encompass economic growth as a phenomenon.

As I will show you, economic growth is a problem in microeconomics. You get economic growth when you have individual businesses that are thriving. This puts it in the field of microeconomics. Macroeconomic policies are not adequate for dealing with the problem of economic growth.

The one country that has adequate economic growth is Japan. If you try to understand what Japan's economic policies are, it is rather difficult to ferret them out. My own view is that their policies are not microeconomic. Economist Lester Thurow of the well-known Massachusetts Institute of Technology, who was in Toronto recently, points out that Japan has no macroeconomic policies. Basically, the United States and Canada have only macroeconomic policies. I suggest that is a large reason for our economic problems.

2:20 p.m.

I am going to suggest a solution to our problems, which is to develop a new branch of economics which I call "economic systems science," the basis being that our national economy is fundamentally a very large, complex, complicated system. The expertise you need to develop policies for that is in the field of systems. In our society today, the people who have most of the expertise, or who have good expertise in this area, turn out to be the engineers. This is why I am speaking to you today. I am speaking as a professional engineer, and the professionalism is important, as well as the fact of being an engineer.

Unfortunately, the word "profession" is a word that is very ill-defined. Currently in the universities, you will find that the philosophers have found a new field of research, namely, professional ethics, and they are mainly looking at the ethics of engineers and criticizing the engineers for their unethical behaviour. Yet these same philosophers write articles on professional ethics and they frequently begin the article with this statement, "There is no general consensus as to what constitutes a profession."

In other words, they are saying we have not the foggiest idea what the word means. They then go on to say, "Therefore, I will presume that a profession is defined by," and they list two or three characteristics, such as advanced knowledge, a code of ethics and so on. They assume that defines the word "profession," and they go on to write long articles about the unethical behaviour of engineers.

I suggest to you that the most unethical professionals in our society today are the academics, and I speak as an academic. Education has long been considered one of the professions. There is not an educator today who can tell you what that word means. In fact, many of them belong to unions, and unionism and professionalism are not exactly compatible terms. As I go along, I will make some brief comments on where my professionalism enters into it.

That is the background, and I will proceed with the slides. I am going to be talking about the two branches of economics. Macroeconomics is the study of aggregates of economic variables of a nation or subregions of it. The key word there is "aggregate." You are dealing with aggregates of economic variables, and that very definitely says that macroeconomics is concerned with the symptoms of economic activity which occur at the microeconomic level. It deals with the symptoms.

When you develop policies to cure the symptoms of a disease, you are in trouble, as Dr. Stephenson very well knows. If you get a pain in your side, you know you have a problem and you go to the doctor to have it fixed. The doctor knows the problem you want solved is not the elimination of the pain, but the elimination of the cause of the pain, and it takes professional expertise to recognize the cause. It may be an appendix or it may be something else.

Let us assume the doctor says to you, "You need an operation." You then say to the doctor: "Okay. Can you give me an absolute guarantee that if I have that operation I will be cured?" Any sensible doctor would say, "No." The best a doctor can do is to take a calculated risk and say, "In my best opinion, the operation will almost certainly be successful, but I cannot guarantee it."

Professionals take calculated risks. They cannot guarantee certainty, and that is the problem when you are dealing with human beings. In any complex system that has human beings in it, you cannot guarantee certainty. You need people who have an expertise to deal in the environment of uncertainty and take calculated risks. So macroeconomics is the wrong discipline for solving our economic problems because it deals directly with symptoms of problems.

Microeconomics is the study of economic variables of individual business enterprises. I suggest to you that economic activity generally occurs at this level, the level of the individual business. Unfortunately, microeconomics in its present state of development is useless; it strictly belongs to the 19th century. So we are not going to get any help out of microeconomics. That is why I will be suggesting to you that we need new disciplines.

The fact that our economic theories are not very useful has been pointed out to us many times over the years. John Kenneth Galbraith of Harvard, one of our favourite economists, said in a speech in 1972 that neo-classical or neo-Keynesian economics has a decisive flaw because it offers no useful handle for grasping the economic problem that now besets modern society.

Jane Jacobs, a controversial writer on economics in Toronto, recently published a book entitled *Cities and the Wealth of Nations* in which she said we would be rash to suppose that macroeconomic theories will ever solve any of our economic problems. She said the problem with macroeconomics is that it deals with too large a unit, namely, the nation. She proposed as a solution that you take the city as your unit. I suggest with a



city you are still dealing with aggregates of economic variables; so that is not the solution either.

With macroeconomics dealing with symptoms, you get a lot of policies that are erroneous. For example, in the field of job creation, I understand 147,000 new jobs were created last year in Ontario alone. Surely somebody in Ontario knows how to create jobs. I happen to be one of them. I contributed 30 of those jobs, and I will be creating another 20 in high technology in the next 12 months.

As far as I am concerned, there is no mystery about job creation. I know all I need to know about it. As I indicated a moment ago, the way you solve that problem is to achieve economic growth. If you can produce economic growth, you will forget about job creation because you will have full employment.

I will have more to say on free trade in a moment. It is actually a macroeconomic policy designed to produce microeconomic impacts, which is silly. Protectionism is the same.

Lack of venture capital is a symptom; it is not the problem. There is no lack of money. If you go down to Bay Street and talk to venture capitalists, you will find they have money to invest. The problem is that they will not give it to entrepreneurs and for excellent reasons, namely, it is a very bad investment. I will justify that statement a little later.

Foreign investment is a field about which we have very little understanding. It is not as desirable as some people would like to make you think. We do not need foreign investment for capital. The majority of companies that come into Canada to start up new operations do not bring foreign capital with them. They just borrow it from our Canadian banks and then pay off the loans with the profits they make in Canada.

The idea that they bring in foreign money we desperately need is quite untrue. I will also point out to you that the idea that we need to import foreign technology is not true. I have a company, which I will tell you a little bit about, that is the world leader in the next major growth industry, which is high-tech industrial ceramics. We are the world leader and we developed it in Canada. We did not have to import anybody's technology.

Entrepreneurship for economic growth is also a myth. I will give you some statistics to justify that. We do need innovations, but that is not our major problem. What we need for economic growth is jobs--industries. I mean ordinary jobs, making shoes, typewriters and refrigerators. If it is a high-technology industry, that is a bonus. We need high technology, but it is not the essence of what we need.

2:30 p.m.

Science and technology policies are a fine example of dealing with the symptoms of a problem. I will talk about that in a moment. Low industrial productivity is another myth. Productivity is a microeconomic parameter; it has no meaning at the macro level.

Equal pay for work of equal value is a controversial subject. If Ontario adopts such legislation, it had better also pass legislation at the same time that absolutely forbids any Ontario government agency from buying an import from a country that does not have this legislation and especially from Japan, which is known for its exploitation of women. It would be totally unfair to Canadian industries if you passed equality employment legislation and did not at the same time prohibit the purchase of foreign goods that do not conform to the law.

Let us look at free trade. These are some of the assumptions, as I see them. Can you read that bit?

Miss Stephenson: I cannot see it.

Dr. Sinclair: I am sorry. My secretary had produced this before I saw it. I was in such a hurry leaving that I could not get it redone. I will have to read it for you.

The first assumption is that each nation will develop its own industries of comparative advantage. What that means simply is that we need to produce industrial innovations. That concept originated in the 1930s, when economists looked at Switzerland, with its watchmaking industry; that was an industry of comparative advantage.

The United States at that time had an electronics industry and an automotive industry that dominated the world markets. These were such industries. But in the past couple of decades neither the United States nor Canada has been able to develop any significant industries that fit this category, certainly not enough to make an impact on our economy.

I am going to tell you about the ceramics company of mine in a moment. It will give you plenty of reasons for understanding why we have failed to develop these industries. If we cannot develop such industries, we are a bit foolish to be scrapping our tariff barriers. We should first learn how to produce these industries and then scrap the tariff barriers.

It is also a myth that free trade eliminates trade barriers opening vast new markets for domestic companies to exploit. There are many companies in Canada that are quite capable of competing in the US market. Practically all of them have subsidiaries in the United States. One of my companies, Sinclair Radio Laboratories Ltd., has had a factory in Tonawanda, New York, since 1960. We have had complete and free access to the entire US market since then and tariff barriers have nothing whatsoever to do with it.

It is a mistake to think that only by exporting can we tap the US market. That is not true. Subsidiaries can do it, as can joint ventures and licensing--there are all sorts of ways to tap the US market.

Free trade opens large markets needed to exploit economies of scale. That is an obsolete concept. Production engineers in recent years have made great strides in making small factories competitive pricewise with their automated equipment, computer-controlled machine tools, etc.

Sinclair Radio Laboratories is the world leader in a very sophisticated military product called a multicoupler. It is a device that allows a lot of radio equipment to share a common antenna. The CN Tower has a lot of our multicouplers in it. There is a doughnut-shaped bubble underneath the building that has a restaurant in it. This is called a radome, which is a fibreglass plastic sheet that is transparent to radio waves. Behind it there is a row of Sinclair Radio antennae serving different uses--police radio, taxi radio, ambulance services, etc. These systems all operate without interfering with each other because of the roomfuls of multicouplers in the floors above which separate the signals and reject the interferences.

In the recent Falklands war, the British Royal Navy had won very clear advantage over the Argentinians in that their shipboard communications system worked beautifully. The heart of that system is a Sinclair multicoupler built in England under licence, and it performed superbly. Sinclair Radio Laboratories is the world leader in multicoupling. We have about a half a dozen companies competing with us now, but we are still the world leader.

The point I wanted to make was that we became the world leader by making this \$100,000 piece of electronic equipment for the Canadian navy. Can you think of a smaller military market then Canada's navy with its half a dozen ships? Economies of scale is a myth. You do not need a huge market to do these sophisticated things.

The next assumption is a very important one, that the total tax burdens on industry are approximately the same for each nation. That is absolutely not true. The total taxes for 1982 expressed as a percentage of the gross domestic product range from about 60 per cent in Sweden down to 30 per cent in Japan. The taxes vary over a two-to-one range. That impacts on industry because industry contributes to the gross domestic product.

On average, these figures can be taken as an estimate of the tax burden on industry. What I am talking about here is not just the corporate taxes that President Reagan talks about; I am talking about all taxes, direct and indirect. I have to pay my employees' wages so they can pay the cigar tax, the liquor tax, the sales tax and all the other taxes. The only way I can make an estimate of what that means to my tax load is to look at these figures. It is fair enough to say these indicate, in a rough way, the differences in the tax burdens.

In Canada our taxes are 39 per cent of our gross domestic product, while in Japan theirs are only 30 per cent. A nine per cent difference in taxes is pretty critical. If you are talking about an automobile, that is a cost difference of several hundred dollars. When the Japanese have a big tax advantage on us, they have the money to put a little extra quality into their cars and do things we do not do. The tax burden is a critical issue. I wish we had some statistics that would show what are the real tax costs.

Export policies must be adopted to achieve near-zero deficits in the balance-of-payments accounts. This is not one of the stated assumptions but it is one that is important.



I want to look at Canada's performance in manufactured goods only. As long as we have exports that equal the imports, there is no problem. I am thinking particularly of that tax burden. We are producing exports, which are part of our gross domestic product; so roughly 39 per cent of them represent taxes. Imports do not contribute to our tax base except in so far as there might be some sales taxes and that sort of thing, possibly remnants of tariff barriers, which are quickly disappearing. Basically, though, that column of imports pays very little tax.

When we have an imbalance, the problem is serious. I am looking at the deficit. If we had equality in the two columns, I would not worry; but with the deficit, there is in that 15-year period a total deficit of \$170 billion. Is it any mystery to you why Ottawa is facing a tax deficit of nearly \$40 billion? The facts are right there.

2:40 p.m.

In the past five years the figures average out to a deficit of \$16 billion a year. That means that each year we have to ship \$16 billion, mostly US dollars, out of the country to pay for necessities that we are importing. That \$16 billion a year is a serious problem because we are not paying for it out of our exports of manufactured goods. We are paying for it partly by exporting agricultural and forest products, which is desirable, but we are also exporting large quantities of our nonrenewable natural resources, which may not be quite so desirable.

Economists tell us that it is entrepreneurs who are going to rescue us from our economic problems. I defy anybody to prove to me that entrepreneurs are going to produce \$16 billion worth of manufactured goods a year to export. I just do not believe it. We should encourage entrepreneurs, but I do not think they are going to rescue us from our problems.

Finally, consumers have a right of access to low-priced imports. I suggest to you that if you look at the tax situation, our existing industries are subsidizing the imports. When there is a \$16-billion annual deficit in our gross domestic product, then our existing industry has to cover for the missing taxes. That is why Canada's taxes are at 39 per cent and Japan's are a good deal less.

When you import goods, there is not only a loss of taxes but also a loss of jobs. I maintain that when you are looking at a low-priced import you should first add to it the taxes it failed to pay. Then look at the unemployment insurance benefits you have to pay to take care of the unemployed workers who could have been working if those imports were not there. When you look at these two figures, it turns out to be a pretty substantial change in the price. What looked to be a great bargain is not a bargain.

I suggest to you that the Japanese know what I am talking about when they tell us they refuse to open their domestic market to unrestricted imports. They can afford imports with their huge balance of payments, but they do not want the imports because they want the taxes and they want the jobs.

I am saying to you that free trade is based on a lot of myth and fallacy and we should think very carefully before we get involved in a free trade arrangement. Manufacturers have the opportunity of having foreign subsidiaries; so they do not need the elimination of the tariff barriers.

It is justifiable to claim, though, as Peter Lougheed does, that for oil and petroleum products they do need free trade because they cannot move their businesses out of the country. I do not think if we have free trade in the resource area or farm products, that is any justification for imposing the same policy on manufacturing, which does not need it.

On the business of economic growth, science policies are very much involved. If you look at the total expenditures on research and development in the United States for that 15-year period--that is, government, industry, universities, private research labs and so on--they add up to  $\$5 \times 10^{11}$  or, in other words, half a trillion dollars.

Nobody can say the Americans are not spending enough money on research. But what did it do for them? The benefits are hard to find: a loss of world leadership in industrial development--Japan has taken it over--the loss of several key industries; their great lack of industrial innovation; and low rates of economic growth. In the past five years, their economic growth rate has been 1.5 per cent, and if you knock out of that figure the normal growth you would expect from the growth of population, you find it is practically zero economic growth.

The claim that R and D is the key to economic growth is a macroeconomic myth. It absolutely does not happen.

The United States will become one of the debtor nations in 1985. This has happened. It has replaced Brazil as the major debtor in the world. It has failed to produce jobs for about seven million unemployed. The budget deficit for 1985 in Washington will be about \$220 billion. The last figure is wrong. The deficit in international trade for 1985 will be about \$120 billion.

I defy anyone to prove that R and D is the key to economic growth. It has nothing to do with it.

Here is another bit of evidence. The Organization for Economic Co-operation and Development in Paris, an organization I assume you understand, made a study of the expenditures on social programs. Social programs include health, welfare, education and pensions. This is for the seven major OECD nations, Canada, Japan, United States and four European countries. What they did was take the total social expenditures for those seven nations and expressed it as a per cent of the total gross domestic product of those seven nations.

This was the result. In 1960 it was about 14.5 per cent and in 1981 it was about 23 per cent. If you extend that curve up to 1985, it is not far from being doubled. I cannot understand it. The authors of the article said they were not too worried about

this. It just indicated that we are certainly looking after the poor and disadvantaged.

The other way to look at it, though, is that we have become so expert at redistributing the wealth that we have outpaced the capacity of our economies to generate the funds. That is a serious matter.

Prime Minister Mulroney's advisers tell him that in order to reduce the deficit there are two things he could do. One is to scrap social programs, such as the deindexation problem he ran into. The scrapping of programs is not politically attractive. The other possibility is to raise taxes, raise more money to pay for these things. I am not aware of anybody else saying there is a third choice. That is to increase the gross domestic product. If we increase the gross domestic product, as we should, the problem will disappear and that curve will flatten off without having to cut anything, without having to increase taxes, etc.

The issue of economic growth is becoming critical. What is the definition of it? This is basically a definition from Irving Kristol, a well-known economist at New York University: "Economic growth occurs when individuals have appropriate incentives and suitable opportunities to improve their own economic condition, by launching new business enterprises that create new jobs and new tax resources, generate new capital, for the benefit of society as well as themselves." This is the essence of capitalism, and we desperately need capitalism.

That previous curve I showed you shows why George Gilder, the well-known author in the United States, made the statement that socialism is dead and capitalism has failed to make a case for itself. We desperately need to make a case for capitalism, but George Gilder, being a macroeconomist, had the wrong expertise for doing it, and I do not know of anyone else who has the right expertise.

2:50 p.m.

I have told you about all the problems. I want to tell you now about an experiment I conducted. This is an economic experiment. In 1974, I had an opportunity to purchase a small ceramics company located in Lindsay, Ontario, called Almax Ceramics Industries. Two entrepreneurs by the name of Al and Max had set up the company in 1963, and they had had a sequence of research grants from Ottawa under the program known as DIR, defence industrial research, from the Department of National Defence.

They were developing a ceramic material to make a unit like the one I am holding in my hand here. This tube is a very sophisticated industrial ceramic. It has the very interesting property that if you apply enough force to it, it will generate an electric voltage, and a very substantial one.

You are probably familiar with this. This is a propane barbecue lighter. What is in it is a piece of this material. When



you pull the trigger, you are bending a piece of it that generates voltage. The spark that is there is about one sixteenth of an inch, and from my knowledge of arcs I can tell you there are over 1,000 volts there--a thousand volts coming out of a little chip of this. I have a big one here. If I could squeeze this, it could produce 50,000 volts, which would be more than enough to kill me. So these are very sophisticated materials.

What they do is to store electricity, just as a piece of iron can store magnetism. This stores electricity, and you get the electricity out by squeezing it. The industrial application of this is in ultrasonic devices. These that I have are for sonabuys, which are nothing more than submarine detectors. They are very important to the navy.

The small company in Lindsay was developing the process to make this unit, but it had not succeeded. The two entrepreneurs parted company along the way. In 1973, Max, the one who ended up with the company, died and the company went into his estate. The executors were trying to sell it but with little success.

Being a professional, when I look at an acquisition, I do not do it by the seat of my pants; I hire a team of experts. I had a team that included a mergers expert from Price Waterhouse, one of their senior partners. I had a tax lawyer, a corporate lawyer and a marketing expert.

These four people looked at Almax and reported back to me that it had no product and therefore no customers. It had no financing, no management--at least, not after the man had died--and a rented dilapidated building that was unsuitable for any factory. But it had one asset: a group of competent research personnel.

Mr. Taylor: It should be cheap.

Dr. Sinclair: It should be cheap. You are right.

Anyway, I put the team to work and said: "Okay. I like the look of the research group. What will it take to make an innovation?" They came back with a business plan for five years. Risk capital of \$1 million would be required. There would be five years of losses--that is, no profits. The risk capital will mostly vanish; that is, the \$1 million could probably vanish in the five years. Some help would be available from government agencies on the risk capital, and it might be eight years before there would be a reasonable profit.

This is a group of experts. This is not an entrepreneurial venture; these are people who know what they are doing, so I had full confidence that that business plan was exactly what would happen.

Their recommendation was not to touch it with a 10-foot pole; it was a bad investment. I had to agree with their assessment, but I bought the company. I did it because I am an engineer. I do not gamble. I took a calculated risk, because I

asked myself, "Suppose I buy the company, what happens in the sixth year?" I realized long before the Japanese that high-tech ceramics would be a future industry, so I bought the company.

I did not even bother going to Bay Street to look for risk capital. With five years of losses, they would simply have said to me: "Look, I can buy Ottawa bonds and double my money. Why should I lose it?"

There is no shortage of risk capital for this kind of venture except that you cannot get it from them because it is a bad investment. There is no shortage of money. It is a bad investment, and for government agencies to take up the task of supplying risk capital is silly. The venture capitalists will not do it and they are the experts. For the government to say, "Okay, we will supply it," is not a sensible thing to do.

I bought it, and what happened? Well, it is a long story. I will not go into the details of it, but I can tell you I have succeeded with this company in spite of our industrial policies. The first thing that happened to me was that I bought the company on a promise from the Department of National Defence that it would continue the DIR grants.

The DIR grants were one of the best programs in Ottawa. What they did was take a product coming out of the research laboratory and fund it up to the point of its being a commercial product. This is a very important gap that our industrial policies today do not cover. They agreed to continue the funding. However, in January 1985, six months after I bought it, they scrapped the DIR program completely. So I was left with this company and no income. The losses were beginning to mount very fast.

However, I went to the National Research Council and under their IRAP, industrial research assistance program, I got the funds I needed. The National Research Council has a very good policy, and I will tell you later why it is a good one. Our other industrial policies, generally, are not much use.

Here is the economic story on the company. It showed a small profit in 1976. That is not real; that was an accounting aberration. All the accountant did was shift some of the loss into the next year. So it is not real. We had five years of losses as they predicted.

We were beginning to make a few sales, and in 1980 we had good profit. Then the roof fell in. President Reagan got elected on a program of saying he was going to boost defence. He meant it, but it took a couple of years for him to get around to it. In the meantime, there was a scarcity of government contracts in the United States. We sell our product in the United States; so our contracts died out. In 1982 we still had some contracts we were finishing off.

You can see that the losses had mounted. In actual fact, in 1982 the company had a book value of zero. The entire \$1 million risk capital we put into it had vanished. Of that, Sinclair Radio

supplied \$600,000 and the other \$400,000 we got from Ottawa in grants of one sort or another. At this point, the bank, of course, was suggesting receivership. I took another calculated risk and said, "No, I do not want it to go into receivership." I put in another \$200,000 to rescue it.

The history from there on is all positive. The company today is highly successful with \$3 million in sales last year. We will do \$4 million this year and \$5 million next year and be profitable.

When I bought the company, this little thing I am holding here was the product. That was what was being made. In 1979 the United States navy announced it was bringing out a new generation of products that required this unit. It had taken an American company 10 years to figure out how to make this piece of material. It is a very difficult piece to make, because it is exceedingly important that there be no micro cracks in the material.

Very high powered electrical equipment is attached to this, the sonars which generate ultrasonic waves that go out in the water, hit a submarine, come back and are detected by this. At the power levels used, if there are any cracks on the surface, this thing shatters. It took the American company 10 years to figure out how to make it.

3 p.m.

There is a vast difference in the amount of material in these two parts here. The US government made a survey in 1979 that said US industry did not have the capacity to produce this, plus this little one for obsolete equipment that would still be around for about another eight years. So the US government, through the Canadian Commercial Corp., came to Almax and said, "We would like you to take on manufacturing this unit," while the American companies built the big one. With eight years of business in this, that was a good enough business for me to look at. I said, "Fine," and we went to Ottawa and said, "Here is what the US government wants us to do." Ottawa said: "Fine. We will help you."

I am still waiting for the help. It has not happened for various reasons. The federal department has had its problems. So we went ahead on our own.

I recognized, however, that I was building an industry of comparative advantage. I wanted to be at the forefront. I realized we had to make this one. We got a grant from the National Research Council and to my amazement our experts in Canada developed this product in three years. At the beginning of 1983, the US navy put out a procurement contract for the sonabuys containing this part. To everybody's amazement, Almax ran away with 40 per cent of the production. Nobody knew we existed and nobody believed anybody could compete in less than 10 years. So when we ran away with 40 per cent of the production, the US ceramics industry suddenly realized there was a new star on the horizon. Today we are producing nearly 60 per cent of this. We have virtually destroyed the US competition.



Ceramics experts will tell you that what I am holding in my hand is the most sophisticated, high-tech ceramic component in commercial production today. It is made in Lindsay, Ontario. The science council recently put out a magazine called In Touch, and right here is the statement, "Canada lags a decade in advanced materials." They mean ceramics and they are talking about Japan being the leader. The correct statement is that the world leader is right here in Lindsay, Ontario.

Two weeks ago the general manager of Almax was in Tokyo attending an international ceramics meeting. Incidentally, the genius behind my company is an Egyptian Arab by the name of El Assal, a graduate of the American University of Cairo, a most unlikely spot to produce one of the world's leading experts in sophisticated high-technology ceramics. He went to the Tokyo meeting. The Americans were there expecting to be amazed by all the Japanese development. The hit of the meeting was Mr. El Assal, who described his latest innovation, which is to make this kind of material in a thin film so you can miniaturize equipment with it.

One of the major uses for this thin film he is working with will be--and this will interest Miss Stephenson--ultrasonic scanners in hospitals. One of the problems with ultrasonic scanners is they do not have enough detail, enough resolution. This is a function of making the unit smaller and smaller..The thin film we are talking about, which may be one millionth of an inch thick, is the ultimate. Almax amazed everybody at Tokyo by showing some samples we can make by a new technique.

We have in Canada, in this Almax company, the world leader in the coming revolution of high-tech ceramics. The Japanese have chosen this industry as their next industry. They have chosen it mainly because of the automobile. As many of you know, they are developing a ceramic automobile engine. Actually, it is a steel engine with ceramic liners in it. This is because the higher the temperature of the burning of gasoline, the more efficiency you get out of it. We have reached the limit of where we can go with steel, but by putting ceramic liners in we can go a lot farther.

The Japanese do not have a ceramic suitable for this. The British have invented a new ceramic called sialon that looks as if it is going to be the candidate. Almax Industries is the only small company in the world that has the expertise to be granted a licence to make sialon in Canada. We do not have an exclusive licence at all; we have to compete with all the other licensees, five of which are Japanese. But we are the only Canadian company that has the expertise to get it. I am telling you that what I think I have created is the making of an industry of comparative advantage.

Let me tell you the impact of free trade on this. In 1977, when we were struggling to get going, the Canadian navy had a procurement program that required \$500,000 worth of this size of component, which we were geared up to make. We bid on it, but we did not get the order because we were 15 per cent higher than an import from the United States. At that time the Department of Supply and Services would allow a 10 per cent bonus for Canadian production; it would not allow a 15 per cent bonus.

I wrote to the minister and pointed out that if Almax had got the order, the first thing that would have happened is that I would have set up an account and shipped withholding tax on the wages I paid to my workers back to Ottawa, which the imports do not pay. I said that this should have been subtracted from the contract.

There are also all the hidden taxes. In those days it was roughly about one third of our gross domestic product. I said that really one third of the \$500,000 should be subtracted for the taxes that would come out of the wages I paid the employees. In addition to that, I was providing 30 jobs for a year, which would have taken 30 people off the unemployment rolls. At that time the unemployment benefits were on the order of \$6,000 a person; so they should have subtracted \$180,000 from the contract before comparing it with the import.

In other words, when you do all the arithmetic, about \$155,000 was the real bid that we had made, and the order went to an American company. I got a letter from DSS saying, "We do not get involved in socioeconomic considerations."

That was the impact on us. You can imagine what it did to Almax. A \$500,000-contract when we were facing huge losses--we could have made a little profit on it--was critical. Not only that but our customers are American contractors. When they asked us whether our Canadian government was supporting us by buying our product, we had to say no, and that does not help. This is the impact of free trade on a small high-tech company that is going places.

My time is getting short. Let me conclude by suggesting to you where we go from here. First of all, the reason we did not get the contract for the Canadian navy is that our industrial policies make no allowance whatsoever for a startup phase, the fact that I face a startup phase in getting going. In fact, one of the implicit assumptions of free trade is that a new company will be internationally competitive from the day it is launched. That is absolutely unreasonable.

3:10 p.m.

When Japan started developing its industries after the Second World War, this was its policy and it was an announced policy; there was no secret about it: Japan's domestic companies will face no competition in their domestic market, either from imports or foreign subsidiaries, at least until they become capable of meeting international competition. This was their announced policy, and I can tell you they have never repealed it. Their industries are absolutely internationally competitive, but they still do not face competition in their domestic market. I think I have already indicated to you some of the reasons. They have no intention of opening their domestic market.

I want to suggest to you that our national economy is a very large and complicated system. If we are going to develop sensible policies for it, we should produce systems policies. For instance,

when you look at science policy, which says we should be doing more research and development, you have to look at the whole system and you will discover that R and D alone is useless. If you are going to get the benefits of R and D out of industry, you first have to establish the companies that are capable of exploiting the knowledge.

Many people would have thought that Almax Industries was started by a research group. The research group was very competent. I maintain that I launched Almax when I decided to take a calculated risk of losing \$1 million. That is what created Almax. If I had not taken that risk, there would be no Almax today. R and D had nothing to do with it. As soon as I purchased the company, though, I saw to it that we got involved in R and D to make sure we developed products for which we had the expertise to stay competitive, etc.

R and D follows the launching of a company; it does not precede it. R and D is not what creates innovative, high-tech industry; it is people who create the industry and then they make use of R and D.

One thing I should tell you about it--and again this will interest you, Bette--is that the technical strength of Almax is because of the universities we have in Canada. If you visited the Almax factory in Lindsay, you would not find a door labelled research laboratory. Our research facilities are in the Canadian universities. This summer Almax, although it is a small company, has 21 engineers and scientists working on research projects in five universities, four of them in Canada and another one, Ben-Gurion, in Israel.

We make excellent use of the R and D facilities in universities and we have techniques to make it work. Industries have tried many times to use the strength of universities and failed. You give a professor \$50,000 to do research in an area of interest to you and the first thing you know he is off on a curiosity trip, chasing some little interest that happens to come along.

Almax does not do that. It gives the professor a small contract for six months and a very strictly stated role. The professor is expected to meet the budget and the deadlines. If he co-operates, there is a succession of these to support students. Queen's University has been our main source of this. We have two projects at Queen's right now, developing new products that were suggested by students in their fourth year theses. The universities of Canada play a very large role in our success.

Going back to the systems problem, I would suggest we set up a new discipline--economic system science. How do we do this? Where do we start? Both macroeconomics and microeconomics came out of theoretical considerations. I do not propose to do that. As an engineer, I want to start with the real world and get some empirical data. You need to conduct some experiments.



Economists will tell you that you cannot conduct experiments in economics. They mean you cannot conduct an experiment in the sense in which a scientist does. When a physicist or chemist is doing an experiment they set up things so that they control or make fixed all of the variables involved, except one, which they vary in a controlled way in order to understand the influence of that variable on the phenomenon.

You cannot do that with the national economic system we have; so the economists are right in that sense. However, that does not stop them from carrying out economic experiments. I will tell you a few of them: free trade, protectionism, high interest rates, wage and price controls, and so on down the list. These are economic experiments, I do not care what you say. But our theories are totally inadequate to draw any conclusion from. The whole thing is so complicated you cannot draw any conclusions, so you cannot do experiments that way.

At the microeconomic level there are lots of economic experiments. In fact, every entrepreneur launching a new venture is conducting a microeconomic experiment. Again, we have no basis for extracting information.

I look at engineering and see the same situation. Engineers deal with situations where they cannot control all the variables. Supposing you are designing a bridge, in the first place you do not know exactly how strong the steel is or how strong the concrete is that you are using. You have a good idea of it but you do not have exact numbers.

You do not know how many trucks carrying what kind of loads at what speed will drive across it. You do not know how much wind load or ice load there will be. There are lots of uncertainties that are uncontrollable. If you are going to test a bridge to destruction by loading it up, you can do that, but you are not going to learn anything from it.

The economists take our economy and impose free trade on it and load up industry to the point where some industries are destroyed, but you do not learn anything from it. What engineers do is they do their experiments to the microengineering level. They take maybe 1,000 steel beams that are supposed to be all the same and test them to destruction and they get some statistical information that is very useful to them in saying: "Yes, if you stick below this level of stress, it will be safe."

When it comes to economics, it is not very useful to take 10 or 20 entrepreneurial ventures and study them to see what their problems were and where they got to. That is not very useful because there is a lack of uniformity. When engineers test steel beams, they use the same size and make of beam in their whole experiment. They do not mix up different sizes of beams and so on. So it is not useful to take entrepreneurial ventures will all sorts of degrees of capability and lump them together in some sort of statistical study.

A few years ago there was a scientist at the University of Western Virginia by the name of Biggadike. The article that he wrote is in the back of the book. He made the following study. He wrote to the top 200 corporations on the Fortune "500" list and said: "What are your experiences with launching new innovations to tap a new market?" Thirty-five corporations replied and described 68 new ventures. When he analysed these, he found to his surprise that on average these ventures had eight years of losses, exactly the same as Almax--eight years of losses and 10 to 12 years before there is a return on investment.

This is interesting because, first, the fact that there are eight years of losses immediately tells you why we have a risk capital problem in the US as well as Canada. There are other conclusions to be drawn from it.

What was interesting about his experiment was that he had 68 companies but these were companies that were well managed and adequately financed. They were subsidiaries of huge corporations with all sorts of assets and resources. So they were well-managed companies and they had adequate resources. This eliminated two of the variables when you look at entrepreneurial ventures.

3:20 p.m.

This made the data much more meaningful. I suggest that what we have to do in Canada is to assemble similar data. We do not have enough big corporations to be really significant. What I think we have to do is to launch some small ventures, similar to what I did in Almax, adequately financed with competent management and supported completely to success. There was no time in the history of Almax when I had the slightest doubt about succeeding. I knew what I was doing and I knew where I would succeed. The kind of management you need is someone who is going to stick with it until it is a success.

The fact that you have losses along the way, bankruptcies and so on, is just incidental. You want somebody who has the perseverance to stick with it and carry it to success. If we carry out a number of experiments of this sort, we will begin to acquire the basic knowledge we need in order to handle complicated economic systems.

In my notes you will find I have given you a number of recommendations of things you might consider doing immediately. You do not have this kind of knowledge, so you cannot really produce a sensible economic policy to create economic growth, but there are some things that you can do.

I do not want to give you the impression I have all the answers. I like to be positive. I am a professor and I like to give the impression I know what I am talking about. There are a lot of uncertainties here, but what I have tried to do is to suggest some new avenues of explorations that might lead to new knowledge to solve our problem. Thank you very much for your attention.

Mr. Chairman: First of all, on behalf of Mr. Taylor, probably Mr. McFadden and myself, I would like to thank you for not indicating that lawyers are the most unethical of professions. There were a number of other--

Miss Stephenson: Just the earliest profession. The Bible says God created the world out of chaos. In order to have chaos, you have to have lawyers.

Interjection: So we came before God.

Mr. Taylor: Like the world's oldest profession, they both lie with their clients for a fee.

Mr. Chairman: Before we sink to any greater depths, let us get back on topic. You have raised some interesting and very controversial points. I am sure there are a number of questions.

Miss Stephenson: Is there any area outside of the high-technology area in which Canada could successfully pursue the support of this economic systems, development and economic growth pattern which could provide us with the alternative?

Dr. Sinclair: Absolutely. I am suggesting we need to take a systems approach to every industry, shoes and textiles--

Miss Stephenson: Okay. It is beyond simply the high-tech area.

Dr. Sinclair: Definitely.

Miss Stephenson: That is something that did not come through quite as clearly as I thought we needed to know.

Dr. Sinclair: I could have gone on for another hour and elaborated on these points. I had to restrict it. We desperately need ordinary jobs; high tech is only a bonus. Everything I said applies to these areas. We are dealing with a very complicated system; so it is not easy to set up to make shoes or typewriters and so on. It is still a very complex problem.

Mr. McGuigan: Dr. Sinclair, I was on a trip last week and met a man in Tennessee. I think his name was Dr. Carruthers. He works for a development corporation. He gave us the exact same story you did. I thought you might be interested to know that there are people on the other side thinking along the same line as you. He spent quite a bit of time criticizing our education system, saying we have far too many liberal arts students and not enough engineers and people in the technical field.

One thought you did not bring out in your comparison with Japan was it has about the highest savings rate in the world. Following the Second World War, they went into heavy industry smokestack things. They were going to be the world ship builders, heavy equipment makers and that sort of thing, in some of which they have failed. They have a high savings rate of 30 per cent. We are around 10 and the Americans are only around two or three per



cent. They had such a high savings rate that they recovered from that disaster or partial disaster and moved on into other areas, automobiles, etc. To go along with your theories, you need that savings rate, which we do not have.

Dr. Sinclair: Yes. It is a systems problem. You have to have everything in place.

Miss Stephenson: Is there not another component of that picture? It is not just the high savings rate--we have a high savings rate compared to most other countries--there is also a commitment nationally to utilize what is saved by individual citizens and others through the banks for the purpose of supporting industries selected by the government or by some committee to be the appropriate industries to support.

Mr. McGuigan: But you must have the rate there to do it.

Miss Stephenson: As Dr. Sinclair says, you need to have all the other components as well, and I am not sure we can become Japanese overnight.

Dr. Sinclair: The real economic problem in Canada is that it is not profitable to invest in startup companies. It is not profitable unless you can stick with them, as I did, for 10 years. Then you get a payoff.

Mr. Cordiano: The problem stems from the fact that our corporate philosophies are short term: short-term profits, looking at the bottom line in two or three years. We do not have long-term planning in most corporations. During the last 10 years, that has not been the case. There have not been long-term plans.

Dr. Sinclair: Yes, because it is not possible to make long-term plans. I remember that five years ago we had very high interest rates. You cannot predict that sort of thing.

Mr. Cordiano: What I am suggesting is that we did not have long-term strategies for industries. You want to get profits out of an industry or a firm in two or three years, and all the strategies were aimed at doing that.

Dr. Sinclair: You object to this? You want the companies to go bankrupt because they do not have profits?

Mr. Cordiano: No. Perhaps I am not making myself clear. Since we do not have that longer term in mind, we are not capable of sustaining the losses during the period in which we are going to have those losses. It is not in the corporate mentality to have those losses in the short term, so naturally most projects are geared to the short term.

Dr. Sinclair: The problem is much more complex than what you are talking about. I would maintain, for example, that macroengineering projects are essentially dead, and the reason they are dead is not that companies are shortsighted, etc. Nobody will invest in them, not even government.

I have had a long-term interest in fusion as a solution to our energy problems. At one point I owned the Canadian rights to most of the patents relating to fusion reactors for producing power from the fusion of hydrogen. I have relinquished these patents because I do not see any possibility of any organization putting up the money to pay for the construction of these plants.

It is not a technical problem; it is a financial problem. Macroengineering projects are dead because nobody will stick out his neck and say, "Here are a few million dollars at such-and-such an interest rate for the next 50 years." You cannot forecast the future that well. It is a more complicated problem than you may realize.

Mr. Cordiano: We still require long-term planning. There is no question about it.

Dr. Sinclair: It does require long-term plans, but who can make long-term plans when you do not know what the interest rates are going to be?

Mr. Cordiano: The Japanese are certainly making long-term plans, regardless of the interest rate.

Dr. Sinclair: Yes, but that is a different economy. Their interest rates are reasonable, in fact.

3:30 p.m.

Mr. Chairman: I have never had driven home to me as well as you did the tax impact of negative balance of trade. I wonder whether you care to go a step farther. Have you any solutions in this area that you care to elucidate? The first thought that one has is to put lots of tariffs on the imports to make up for the taxes we put on the exports.

Dr. Sinclair: What I want to get to, and I should have said it, is that we should be self-sufficient in manufactured goods. Japan is basically self-sufficient. That has been done with a population of about 100 million. Canada has a population of something like 25 million. We should be nearly self-sufficient. We do not need to make 747s and such things, but we certainly can make all of our necessities.

Mr. Chairman: Are you saying you would endorse higher tariffs?

Dr. Sinclair: I want to get to the point the Japanese are at, where we do not permit unrestricted imports to our domestic market, because an import is so expensive we cannot afford it. That is the basis. An import is so expensive. The next most expensive way to acquire a product is a foreign subsidiary.

Mr. Chairman: You disagree with witnesses we have heard who suggest perhaps the most important thing for an economy is to have a lot of trade. Professor Lipsey suggested the greater the volume of trade, the higher the standard of living.

Dr. Sinclair: That is a generalization that is meaningless. Are you talking about imports or are you talking about domestic trade?

Mr. Chairman: I do not think he clarified that.

Miss Stephenson: He suggested both; trade within Canada as well as enhanced trade outside of Canada.

Dr. Sinclair: If I am right, Canada's taxes are 39 per cent of our gross domestic product, Japan's are 30 per cent. That makes a big difference in your wholesale price. If you think we are going to be internationally competitive with Japan under those conditions, I think you can forget it. We cannot. Therefore, we do not allow unrestricted imports of Japanese products into Canada.

Miss Stephenson: The Swedish comparison is also interesting, because their tax is in the order of 60 per cent.

Dr. Sinclair: That is correct.

Miss Stephenson: Yet we heard this morning from the forest products industry that Canadian forest products industries, particularly Ontario, were uncompetitive with Swedish forest products. Obviously the tax is no great impediment to them, but this was because of the devaluation of the krona.

Dr. Sinclair: That is a factor. The low Canadian dollar is a big factor in the success of Almax.

Miss Stephenson: Sweden is not totally self-sufficient in all things, not by a long shot.

Dr. Sinclair: That is true.

Mr. Chairman: Mr. Bursey, one of our witnesses, told us the only self-sufficient country in the world is Albania.

Miss Stephenson: We were not sure we wanted to be Albanian.

Mr. Morin-Strom: On that comparison of the tax rates, I wonder if that is really a fair one when you take everything into account. For example, United States versus Canada, I think you were saying 31 per cent versus 39 per cent. However, as a big component of that, you mentioned social services and health. A much bigger portion of that would be coming out of public revenues in Canada, while in the United States it would not be included as a component of tax.

However, health costs in the States are higher than they are in Canada and they have to be paid for individuals out of company revenues or wages. Presumably they have to be included in order to maintain that kind of comparison. I do not know what that might be--perhaps four or five per cent of that difference.

Miss Stephenson: Two per cent maybe.



Mr. Morin-Strom: There may also be other components where the government is providing services that otherwise have to be provided privately in the United States. I am not sure that is really a fair comparison.

Dr. Sinclair: Does it make any difference whether a company takes care of the health of its employees by contributing to taxes or by giving them direct medical benefits? If you read Lee Iacocca's autobiography, he talks about the health benefit package to his employees. It is in the hundreds of dollars. It is a very large package, so it does not matter whether he pays it in taxes or otherwise.

Mr. Morin-Strom: That is my point. You are saying it is a penalty when it is on the tax side, but it is not if it is paid in wages or as a benefit, because it is not included in that tax amount.

Mr. Cordiano: That is not a fair comparison. That is what I think you are saying. You have to include it in the figures for the US tax rate.

Dr. Sinclair: I think some of my financial analyses are naïve. What we need are some proper studies of these things, and one we desperately need is this tax. What is the true cost of an import to Canada, taking account of all of the system factors? I am not competent to make that judgement.

Miss Stephenson: Utilizing all the factors that you listed when you talked to the Canadian government about its selection of an import over what could be produced by--

Dr. Sinclair: Yes, that is right. That is a very simple analysis. It probably comes to the right conclusion, but I do think we need accuracy.

Mr. McGuigan: There are endless comparisons you can make in the tax field. You would have to compare inflation rates in the two countries, because inflation is a tax on each economy. You would have to look at the American defence expenditure as compared to ours. There is just no end that you could go to before you come to a final figure. All your figures do there is give a broad indication of where the two countries stand.

Dr. Sinclair: Yes.

Mr. Mackenzie: I am still not finished this question.

Mr. Morin-Strom: Getting back to this tax issue, I recognize there may be some problems in the comparison. You were making a very valid point when you talked about the penalty to the Canadian economy when imports are not making a contribution to taxes or the cost of unemployment insurance.

A couple of times earlier in our hearings, I tried to bring this point out, but not too effectively. It was dismissed out of hand by a couple of the witnesses. Do you feel the Canadian government should be looking at what kind of a contribution

imported products are making to our economy versus what we would get if we were trying to produce them domestically? Would that kind of comparison clearly show the benefits of a movement towards greater self-reliance?

Dr. Sinclair: Yes, definitely.

Mr. Morin-Strom: Do you think the protection of new companies should be emphasized primarily in the areas of developing new companies, should we be focusing on specific industry opportunities, or do you think it should be a broad-based protection for those we are already competitive in?

Dr. Sinclair: In the written material, I have suggested that in making judgements of the sort you are asking me about, our goals should be economic growth. If a problem comes up, you look at it and ask, "If we take this action, what will be the contribution to the gross domestic product?" If it is a substantial contribution, you support it. If it will have a negative impact, such as bringing in more imports, you should take a second look at it.

For instance, we are very excited about these Japanese automobile companies coming into Ontario. They are certainly going to create jobs and bring in investment and so on. But what they will also be doing is bringing in vast amounts of imports. You should remember that and look at the tax implications of those imports in assessing all the benefits. You may find the benefits are not as great as you think they are.

3:40 p.m.

Foreign ownership is an issue where we have very poor knowledge. Let me tell you of my experience with an acquisition in the US. I bought a company in the US some years ago, a small company that was profitable and making about \$100,000 a year in earnings. At that time, a five-to-one earnings ratio was appropriate, so the value of the company was \$500,000.

I did not send a single Canadian cent across the border in buying it; I went to a bank in the United States and borrowed \$500,000 and put up the asset I was buying for collateral. This was not enough, so I told the bank, "The parent company guarantees the loan." That was enough. They handed me \$500,000 and I bought the company. I had problems with it, but if we had kept the company, in five years the profit would have paid off the loan and in another year or two it would have paid the interest. I would have ended up with a \$500,000 asset for which I had paid absolutely nothing. This is what happens to us when these foreign companies come into Canada.

In the case of the automobile companies--for example, the Japanese--one thing we should do with them is to say: "You can put in a \$200-million plant here if you will permit a Canadian to put a \$200-million investment into Japan." Just try that one, and I do not think you will get very far.

Mr. Taylor: We have to pay them to locate here.

Dr. Sinclair: Yes. They are very happy to have you subsidize them.

Mr. Mackenzie: As a matter of fact, I have an interesting footnote to one of the things that we have been warned may be in the cards. With the close to \$5-billion investment in the United States domestic auto industry that the Japanese have now made, we may find ourselves at risk in the auto pact and the exports we have currently from the country as a result of the United States really giving up on its own domestic ownership of the auto industry.

Dr. Sinclair: Yes. That is true.

Mr. Chairman: Do you have any particular knowledge of the auto industry, whether or not it is the case that they will not be investing their own money here?

Dr. Sinclair: No. I have made up my mind that I was not going to talk about the automotive or petroleum industries because there is so much politics involved and I do not have any--

Mr. Chairman: I was given some information at lunch hour, which I have not really followed up on, to the effect that Japan as a country is investing a large amount of money in this country in indirect investment in securities and so on--in fact, several billions of dollars, almost as much as it is investing in the United States. So it may be that in the case of Japan the criticism is not as strong as it might be with regard to other investors. I do not know.

Dr. Sinclair: I do not know. The only thing I know is that a friend of mine reported the scuttlebutt in the cocktail circuit in Tokyo was that the Japanese long-range plan was to wait for Canadian companies to get into trouble and then buy up our economy at bargain rates. They sure have the dollars to do it.

Mr. Mackenzie: I sensed in what you were telling us that part of it really was that we need an industrial strategy of some kind in this country.

Dr. Sinclair: Correct.

Mr. Mackenzie: I wonder if you would also buy an argument that a number of witnesses have made before us that sounds something like your argument, which is that there is nothing wrong with things such as import replacement and content legislation and that these kinds of things should be part of the direction we are heading in.

Dr. Sinclair: The concept is fine, but the strategy to get there is missing.

Mr. Mackenzie: I do not disagree with you on that. You have no difficulty with that as an approach?



Dr. Sinclair: No. I think our goal should be to manufacture in Canada everything we can manufacture, and that covers most of our consumer goods.

Mr. Taylor: And the reason for that is to stimulate economic activity.

Dr. Sinclair: Yes, but the real point is that an import is so expensive that we cannot afford it. This is the basis of the Japanese policy.

Mr. Taylor: The whole object of the exercise is economic growth, as I understand it.

Dr. Sinclair: That is correct.

Mr. Taylor: Presumably, anything you do will be directed towards economic growth. So what you are saying is that import replacement, becoming self-sufficient, whatever, are all directed towards achieving this economic growth.

Dr. Sinclair: That is correct. But something that is even more important is that we should not permit jobs to be destroyed by imports. I understand that several thousand jobs in the textile industry will disappear this year. When our economists tell us they do not know how to create jobs, it is pretty stupid for us to allow jobs to disappear. For every job that disappears, there is a reduction in the gross domestic product.

Miss Stephenson: That is GATT, Tokyo round.

Mr. Chairman: We are told that in the textile industry it is costing maybe \$40,000 a year to keep a job and we are paying the worker less than that. I think we have heard that in the United States it is costing them over \$100,000 a year to keep an auto worker working who is getting paid much less.

Dr. Sinclair: It is the imports that are doing this. If you get rid of the imports, then you do not have this problem.

Mr. Taylor: Does that apply to every country in the same way?

Dr. Sinclair: Yes.

Mr. Taylor: So every country should be self-sufficient.

Dr. Sinclair: That is correct, yes.

Miss Stephenson: So there isn't any trade at all. Well, there is, because there are some areas in which you cannot be self-sufficient, so it is limited trade.

Dr. Sinclair: What we have to work towards is trade agreements. The automobile trade pact originally was a fine concept that we got approximately equal benefit out of. That is the sort of trade agreement we should be negotiating.

Canada has to sell raw materials. Since we have so much of it and Japan and other countries have not got any, we have an obligation to sell. We have, therefore, an obligation to take back high-technology and other products to pay for it, but we have no obligation to accept such huge imports that we are increasing the Japanese standard of living at our expense.

Let me make one further comment on free trade. One of the things the economists tell us is that we need free trade because it enhances the standard of living of both partners. The reality is this. A study was made in the United States recently, and I think there is a Canadian one also, on the net household income in Canada and the United States. It found in both countries that since 1960 the net household incomes have not changed by more than one or two per cent. When you remember that in 1960 only the husband was working, while today it takes a husband and a wife to earn the same household income, then that is a substantial decline in our standard of living.

Free trade is based on myth and fallacy.

Mr. Cordiano: Essentially what we have is a far greater number of competitors entering into various markets, and that is what is happening worldwide. As a result, we have to give up some of that market to other competitors. Our problem is that we are not moving into other new markets.

Dr. Sinclair: No, because we are a high-tax country and cannot compete with low-tax countries such as Taiwan and Korea.

Miss Stephenson: There is something slightly mythical about the study on family income, since in 1960 there were very few families with two cars, four television sets, a dishwasher, all of the appliances and everything else that everyone absolutely must have immediately these days in order to survive.

Dr. Sinclair: I am sure it would take a proper systems study.

Miss Stephenson: An analysis to determine it.

Interjections.

Miss Stephenson: It is just possible to manage to continue to survive with one income rather than two in certain circumstances.

Mr. Mackenzie: An awful lot of that is based on lifestyle and approaches.

Miss Stephenson: Yes.

Mr. Cordiano: That is as a result of inflation.

Dr. Sinclair: I would suggest to Bette that parents these days are also subsidizing their children much more than previously, and that is a household income that does not show in the statistics.

Mr. Chairman: Did you have another question, Mr. McGuigan?

Mr. McGuigan: I guess I want to ask about a little anecdote you told us about the Japanese. They produce 200,000 Yamaha pianos a year, and the best concert piano that any concert pianist will insist upon is the Heintzman. Am I right?

Miss Stephenson: Well, maybe it is Heintzman.

Mr. McGuigan: It is not the Yamaha. On prime television time in the United States at six o'clock in the evening, when we have news and so on, they have piano lessons, because they teach every child over there to play the piano. The piano that appears on the TV set is a Heintzman, but it has the name blocked out. Yet they have free trade in pianos, except that the movers over there will not move anything but a Yamaha.

Dr. Sinclair: The nontariff barrier.

Mr. Chairman: That is a nontariff barrier.

Thank you very much. This has been a very provocative lecture indeed. I think we will want to take a close look at the transcript of your lecture when it comes out as well, because you brought forth a number of points of view we have obviously not heard before and you seem to have a lot of very practical experience with which to back them up. It has been very valuable.

Being distributed right now are a number of exhibits including Mr. McGuigan's reports, some exhibits that were given to us by recent witnesses that we did not have distributed until now, and also some submissions that have just come in by mail without any real live witnesses to attach to them.

The committee adjourned at 3:51 p.m.







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